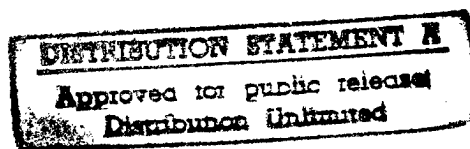




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# ***JPRS Report***

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# **China**

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14 August 1992

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## NATIONAL AFFAIRS, POLICY

### Gao Shangquan Says Market Economy Necessary

HK1008141292 Lanzhou Gansu People's Radio  
Network in Mandarin 2300 GMT 4 Aug 92

[Text] A ZHONGHUA GONGSHANG SHIBAO report says: The 13-year reform and opening up has actually been a process of constantly readjusting the depth and breadth of market regulation; the conditions for setting up a socialist market economy in China are now ripe and the time has come. This remark was made by Gao Shangquan, vice minister of the State Commission for Restructuring the Economy, when interviewed by reporters the other day.

Gao Shangquan said: Through the 13-year reform, China has gained a foundation for shifting from the highly centralized planned economy system to the market economy. It is time we talked about initiating a market economy. In terms of mode of operation, a socialist market economy is not very different from a capitalist market economy, and the same regulatory means and methods can be used by both. The difference is that a socialist market economy is established on the basis of public ownership, while a capitalist market economy is established on the basis of private ownership. The market economy is not tantamount to privatization.

Gao Shangquan also said: A socialist market economy does not reject planning and is a continuation and development of the planned commodity economy. Government functions regarding management of the economy should be switched from a direct to an indirect mode and from a microeconomic to a macroeconomic mode. The [words indistinct] should be switched to the use of economic and legal means.

He maintained that in order to enter international competition, China has to dovetail with the operating mechanism of the world economy. How can an international contest be possible with two sets of rules? Only by installing the new system of socialist market economy can China expect to win international competition.

### Article Urges Comparing Gains, Losses of Reform

HK0308011892 Beijing RENMIN RIBAO in Chinese  
15 Jul 92 p 4

["People's Forum" column by Zhu Huashan (2612 5478 1472): "We Must Know How To Compare Gains and Losses"]

[Text] Cai Zimin, National People's Congress Standing Committee member and concurrently Taiwan Democratic Self-Government League chairman, published an article entitled "What About Selling a Few Clay Figurines of Warriors and Horses?" which raised a public outcry for a time, with some approving his suggestion, while others opposed it. Regarding this, the journal LIAOWANG conducted a special interview and carried

a report entitled "Opening the Historical Relics Market in an Appropriate and Planned Way." The report said that due to the shortage of funds, it is impossible to give better protection to ancient sites and historical relics already excavated, which have been covered with dust and attacked by worms; and it is impossible to survey and excavate historical relics underground in a comprehensive and planned way, thus providing an opportunity for reckless criminals to rob state-owned tombs resulting in heavy losses, which is really heartbreaking! The report's viewpoint is that should a few precious historical relics be sold to solve the shortage of funds while protecting a large number of historical relics, it would pay. Of course, it does not mean advocating selling rare national treasures.

Pondering this issue in association with Comrade Deng Xiaoping's important remarks made during his southern inspection tour, the author has found it most enlightening. Comrade Xiaoping said: "At the initial stage of rural reform, a problem involving a fool and melon seeds surfaced in Anhui. At that time, many people felt bad about it, saying that the person had made a fortune of 1 million yuan, and he should be taken care of. I said no, he should not be touched; otherwise, people would say the policy had changed, and the losses would outweigh the gains." Comrade Xiaoping's concept of comparison in "gains and losses" is very profound. If the person had been taken care of, our "gain" could have been a few hundred thousands of yuan, but what we could have lost would have been people's faith in the policy.

In the course of our deepening reform and extending opening up, more often than not we will face a choice between "gains" and "losses." To handle well the relationships between national and individual interests, intermediate and long-range interests, partial and overall interests, it is necessary to be good at comparing gains and losses. The tasks of socialism are manifold, but the basic one is to develop the productive forces. This has a bearing on the overall situation. We should take whether or not it is conducive to developing social productive forces as the major criterion for testing the gains or losses, success or failure of reform.

Some comrades do not compare gains and losses by this criterion, but by traditional concepts. For example, when they saw foreign businessmen were engaged in development projects in China, they felt bad about it, saying "they have made profits out of us," "our land is being occupied by others" and so forth. In fact, from a long-term point of view, enterprises with foreign investment are built on the land of our country, and come under our legal restrictions; they have to absorb our people in employment and pay taxes; at the same time, they have brought us advanced technologies and managerial methods, with the advantages outweighing the disadvantages, so why should we not be happy to engage in this?

Reform and opening up are like crossing a river; crossing it there are possible risks; but if we are afraid of risks, we

will never cross the river. The risks involved in not crossing the river are far greater than those in crossing it. Some people have endless anxieties about developing commodity economy: Will social crime go up because of it? Will the atmosphere of money worship be aggravated? Will the building of government be assailed? It is unnecessary to evade the duality of commodity economy; on the one hand, it will promote productive force development and make the country strong and the people prosperous; on the other, it will induce some unhealthy things. Weighing the pros and cons, we will certainly develop commodity economy. The duality of commodity economy determines that we must "grasp with two hands." That is why Comrade Xiaoping has always stressed the need to grasp reform and opening up on the one hand, and the crackdown on various criminal activities on the other; to grasp building material civilization on the one hand, and building spiritual civilization on the other.

There are always gains and losses in everything; we should do our best to avoid "losses," or reduce "losses" to the minimum. However, the demand for completeness and perfection without fail can be an impractical and overcritical one.

### **Circular Urges Tough Stand on Fake, Shoddy Goods**

*OW0608071192 Beijing XINHUA Domestic Service in Chinese 0400 GMT 4 Aug 92*

[Text] Beijing, 4 August (XINHUA)—The crime of producing and selling imitation and shoddy goods will be severely punished by law. The Supreme People's Court yesterday issued a circular calling on people's courts at all levels to bring into full play the functions of judicial organs to crack down on criminal activities that have caused substantial damage to the national economy and people's lives and property.

The circular clarified questions on laws applicable to criminal activities involving imitation and shoddy goods: Severe cases of producing and selling imitation and shoddy goods to trick consumers should be convicted for the crime of speculation and profiteering; for those who imitate others' registered trademarks to produce and sell imitation and shoddy goods, including those who illegally manufacture and sell signs of others' registered trademarks, should be heavily fined for the crime of copying trademarks; cases that involve serious illegal trading or large sums of illegal profits should be convicted for the crime of speculation and profiteering; manufacturing and selling for profit fake medicinal products harmful to people's health should be convicted of the crime of manufacturing and selling fake medicinal products; and cases that caused serious consequences should be severely punished according to the law.

At the same time, the Supreme People's Court circular also determined that the use of "kickbacks," "handling fees," and other means to sell imitation and shoddy

goods are deemed a form of bribery in economic transactions. Such crimes should be convicted on bribery charges; procuring imitation and shoddy goods by state workers, economic workers of collectives, and other public servants for the purpose of receiving "kickbacks" and "handling fees" for personal gains is deemed as corruption and bribe-taking in economic transactions. Such crimes should be strictly convicted on corruption and bribe-taking charges.

The circular called on people's courts at all levels to pay attention to fully utilizing additional sentences such as fines and confiscation of property when trying such cases. They should mete out economic punishment to criminals and definitely not let them reap any economic advantages; attention must be paid to reflect the characteristics of the policy. Criminals who manufacture and sell imitation and shoddy goods that have produced serious consequences and incited strong reaction from the people must be severely punished according to the law, while leniency may be given to those who have turned themselves in, made a confession of their crimes, or rendered meritorious services.

### **Consumer Goods Congestion Improves**

*OW1008080692 Beijing XINHUA in English 0724 GMT 10 Aug 92*

[Text] Beijing, August 10 (XINHUA)—Control of production to cut the manufacture of unwanted goods and a drive to promote the sale of stockpiles are essential to step up economic development, according to an official of the economic and trade office of the State Council.

Shi Wanpeng, deputy director of the office, said that the drive to control production and allay goods congestion has forced money-losing enterprises to adjust production structure and raise efficiency, and is in keeping with national economic development.

He said that industrial enterprises can not produce low quality and stockpiled products at the cost of workers' efforts, state energy and raw materials.

Shi was speaking at a meeting on reducing goods congestion attended by industrial and transport department officials. He said that although the total funds occupied by stockpiled products was reduced for the first time in June this year, the overall situation was still grim.

By the end of June, the funds occupied by stockpiled products reached 26.1 billion yuan (5.2 billion U.S. dollars). A big gap remained to realize the goal of reducing the occupied funds by 10 billion yuan (2 billion U.S. dollars) by the end of this year, he said.

The total funds of 26 municipalities and provinces tied up in stockpiles increased—five of them by more than 100 million yuan (20 million U.S. dollars).

Product increases are mainly in light industry, textiles, electronics and chemicals. The stockpiles of cameras are

enough for 7.7 months of sales, bearings for six months and industrial boilers for 4.76 months.

Textile production has been controlled this year, but stockpiles of cotton yarn, cloth, nylon and knitting wool have kept increasing.

Shi said that factors contributing to the increasing stockpiles include rising production rates and transport problems.

He urged various departments and enterprises to make major efforts to reduce over-runs. Those who fail are likely to have loans and the supply of energy curtailed.

## PROVINCIAL

### Money Market Developments

#### Anhui's Bond Market

92CE0534A Beijing JINRONG SHIBAO in Chinese  
22 May 92 p 1

[Article by Hu Yuan (5170 3104): "Steer Enterprises Toward Markets"]

[Text] "Stock fever" made an early entry into Hefei this year. Already 50 million yuan worth of enterprise bonds have been flowing into myriad households since the beginning of spring. In early May the business department of the People's Construction Bank of Anhui Province offered for sale 80 million yuan worth of "unified bonds." Once again droves of residents formed long lines to snap them up.

Counting his bonds, a buyer who looked like a cadre told the reporter: "Several bonds have been issued in Hefei this year. The day before yesterday I came across an announcement in the paper on the issue of bonds. I took out almost my entire savings and bought 5,000 yuan worth of bonds. Their interest rate is always higher than what they pay at the bank. Besides, you don't have to line up every year to buy bonds. You can keep them or cash them, which is very convenient." In all 30 million yuan worth of bonds were sold by the various outlets on the first day. One individual householder bought 200,000 yuan of bonds in a single transaction. In a few days all 80 million yuan worth of bonds were sold out.

Amid a dazzling array of bonds offered, the "unified bonds" package managed to generate an enormous amount of interest among the investors. Of course, the package had its own unique features. The bonds are good for one year but on each bond there is a five-year interest coupon. In other words, the face value use period is five years. The bond holder cut the interest coupon to collect interest each year. Depending on his wishes, he may continue to keep the bond or cash it in return for principal and interest. Its interest rate is 20 percent higher than the rate banks pay on savings deposits. The bonds are simple, convenient, and profitable, just what

the investors want. Some say: "Bonds in hand, you don't have to worry for five years."

Nevertheless, the idea of the people who put together the bonds package—the business department of the People's Construction Bank—was not only to offer the man in the street something he would want to buy. They had a higher purpose—use bonds as a financing or fund-raising tool to intensify reform and guide enterprises toward the market as soon as possible.

Last July the business department of the People's Construction Bank of Anhui Province for the first time issued 5 million yuan worth of short-term bonds for Hefei Power Equipment Corporation. Subsequently it issued 30 million yuan worth of bonds on behalf of Hefei No 2 Radio Plant and Huangshan Electronic Industrial and Trading Company. As enterprises adopt new operating mechanisms, more and more of them turn to society as the source of funds, issuing an increasing number of bonds. However, the issue of short-term bonds, from application, examination, approval, and printing to issue and cashing, is a complex multi-step process. Moreover, there is often no coordination between the various stages. This April the business department put together a unique "unified bond" package after taking into account the characteristics of the array of bonds, and before issuing the bonds, organized several briefing sessions to which people from the banking community and enterprises as well as some investors were invited.

Director Zhang Rongsheng [1728 2837 3932] of the business department told reporters that "eating off the big rice pot" is still a serious problem in the existing bank credit and fund supply system. Hence the enterprises' inelastic demand for bank funds as well as their inertia and dependency, which militates against the push for a new operating mechanism. By issuing "unified" bonds on behalf of the enterprises, combining the features of enterprise fund bonds, reduced-interest bonds, and short-term bonds, the bank seeks to inject the market factor into the credit and fund distribution system and make it more oriented toward the market. The idea is to maximize the role of the market in the optimal allocation of capital goods.

This year the business department of the provincial People's Construction Bank issued a total of 80 million yuan worth of "unified bonds," mainly to raise funds for the Hefei No 2 Radio Factory, Hefei Power Equipment Corporation, Hefei Car Rental and Tourism Company, and 72 other money-losing enterprises. In the future the department will continue to issue an equal amount of bonds each year to create an incentive mechanism and build the enterprise up as a key player in the short-term fund market, thus creating a favorable financial climate for fund-raising by enterprises on the market.

**Beijing's Securities Market***92CE0534B Beijing JINRONG SHIBAO in Chinese  
29 May 92 p 1*

[Article by Wan Qingyuan (8001 7230 0337) and Cheng Ruihua (4453 3843 5478): "Beijing's Securities Market"]

[Text] In the modern financial history of Beijing 27 May is a memorable day. That day the capital welcomed its first stock exchange since the birth of new China. Traders in red jackets paid their first visit to Beijing.

It was 0800 on a sunny early-summer day in Beijing. Over 150 stockbrokers from 76 companies around the country gathered in the multi-function room of Meideya Hotel, videotaped by the camcorders of reporters. In the 3,000-square meter trading area deliberately set aside by the organizers were an awesome six square-meter electronic screen, 18 long-distance direct-dial telephones, and two fax machines arranged side by side. Standing in front of the large electronic screen were two stock exchange managers flanked by workers in yellow jackets.

Today "stock exchange" is no longer a strange phrase to people in Beijing. In the wake of the stock fever sweeping the nation, the people of Beijing are becoming increasingly conscious of banking and finance. The Trust and Investment Company of People's Construction Bank, which had just celebrated the fifth anniversary of its founding, organized this round of stock trading in response to the requests of some of the units which had helped celebrate its anniversary.

At 0830 the organizers sounded the gong and the stock exchange finally opened for business. The first round of written competitive price trading began. In written competitive price trading, traders hand the completed forms to the floor traders when they enter the room. The forms are examined and classified before being fed into the computer by the examiners. Because trading is computerized, trading results are promptly displayed on the electronic screen. Ten transactions took place with a combined value of 64,438,600 yuan. Amid a round of applause in the room, the runners then took the "trading agreements" to the various partners involved for their confirming signature. Thus the stock market marking the fifth anniversary of the founding of the Trust and Investment Company of People's Construction Bank went off to a good start.

It took the Trust and Investment Company of People's Construction Bank a full month to prepare for this moment. At 0910, a heated round of bidding that truly put the courage and insight of the stock traders to the test finally took place. The organizer loudly announced: "In accordance with the principle of time and quoted price preference, the first round of oral competitive price trading this year begins..." Meanwhile, the electronic screen said: "No 137 (the Trust and Investment Company of Ningxia People's Construction Bank) is unloading 1 million yuan worth of 1992 treasury bonds

at a price of 101.80 yuan. Maybe the businessmen were eager to see the stock exchange off to an auspicious start, or maybe the first batch of transactions got all the attention. In any case, someone instantly came up with a price: 101.86 yuan will buy 1 million." Like a piece of rock that sets off endless ripples, this offer was echoed by 10 other bidders in the room. After 36 rounds of bidding, the Trust and Investment Company of the Chinese Agricultural Bank finally bought all the bonds at 102.86 yuan each. An uproar went up in the room. Some people quickly worked out that this deal alone netted 10,600 yuan for Ningxia People's Construction Bank.

Since this kind of stock exchange was a first in Beijing, the public followed with special interest this particular form of trading even as it observed the exchange closely. A stock broker from Hunan told reporters: "I initially wanted to unload my 1989 treasury bonds and then buy some 1992 bonds. However, the stock exchange's rule is to buy and sell 1992 bonds first. Since we don't know whether or not we will be able to sell off our 1991 bonds at our anticipated price, we dare not rashly buy 1992 bonds first. All we can do is wait and see." Comrades from the People's Construction Bank of Shanghai also said, "The exchange stays open too long. The international practice is to limit trading to two hours every day to ensure that the traders keep a cool head."

At 1403, thanks to the electronic screen, people had a premonition that the day's biggest transaction would soon appear. Sure enough, 35 million yuan worth of 1991 treasury bonds sold by the Shaanxi People's Construction Bank at 105.60 yuan were snapped up by five stock traders within a few minutes.

At 1510, the Chinese Information Trust and Investment Company bought 2 million yuan worth of 1992 treasury bonds from the China Foreign Information Trust and Investment Company at the closing price of 102.04 yuan. With the organizer beating the gong, the exchange came to a close.

**Xian's Money Market***92CE0534C Beijing JINRONG SHIBAO in Chinese  
8 Jun 92 p 1*

[Article by Zhang Li (1728 5461): "Boss Hao's Thinking"]

[Text] This is a special market. You don't see a trace of merchandise in the several rented rooms.

This is a mysterious market. Transactions worth 1 billion yuan take place here each month, invisible and untouchable.

It was just past 0800 and all four telephones started to ring at almost the same time. Two young fellows sitting behind desks facing each other got busy right away. Che Jun [6508 6511], who was in his 20's, said something into one phone in his hand and then talked on another

phone nestled against his neck. It was nonstop action for his mouth, his hands, and his brain.

Through these few phones millions of yuan flow in and out of the Xian financial market everyday.

Sitting in the room next door, seemingly leisurely and carefree, is general manager Hao Guizhong [6787 6311 1813], his heavy frame slumped in the sofa behind the desk, his eyes slightly closed. You would think he would never wake up. Don't underestimate him, though. His young assistants have told reporters that "our boss knows what he is doing."

A year ago, boss Hao left the city People's Bank to join the Xian financial market, which had just been set up, taking with him a desk and two people on loan from the bank. Together they founded an enterprise.

From planning to operation, it involves a retraining process for everybody.

A specialized bank needed to borrow five million yuan. The deal was clinched but money was not paid on time. It turned out that the bank was still operating by the old rules of the past. Those rules don't work any more. If you don't have any business sense or any consciousness of the commodity economy, you stand to lose money every day the debt remains on the books.

It was Saturday, just a dozen minutes shy of closing time. A coastal banking institution telephoned the financial market, saying that it needed 30 million yuan urgently. There was no time to waste. Che Jun put down the phone and picked up another. He put together a loan with funds from various specialized banks in the city on fairly favorable terms. Time is reputation. On Monday the other party got the 30 million yuan. Naturally they became business partners.

"It takes just a few minutes to lend out tens of millions of yuan?" asked a puzzled reporter. You cannot get a bank to approve a 10,000 yuan loan in less than three to five days.

"We have power as well as responsibilities," deputy manager Dong Xizheng [5516 1585 2973], who is in his 30's, said.

Lao Hao, who is past retirement age, has laid down two principles for Xiao Dong and Xiao Che. First, keep funds in balance. Second, the two should keep each other informed at all times. This is why at the Xian financial market you don't see people asking for instructions first before calling back a business client. How much to lend and borrow and at what interest rates...all that is decided by Dong Xizheng and Che Jun. Deals worth tens of millions of yuan are clinched in the wink of an eye.

This is efficiency. But such efficiency is not risk-free. Isn't Boss Hao worried?

When he heard the reporters' question, Lao Hao suddenly opened his eyes wide, "If the money cannot be

recouped, that would be disastrous. Only when the business department tells me every afternoon that the funds are in balance can I breathe a sigh of relief." No wonder his assistants say that even if he is hospitalized and put on an IV, Lao Hao would certainly rush back to his "turf" as soon as the needle is removed. Apparently he is not really carefree. This is what makes Lao Hao so unique.

On the other hand, even boss Hao is bewildered. What is inter-bank lending for? As a service to enterprises. Why then aren't large- and mid-sized enterprises allowed to borrow directly? Wouldn't that shorten the process and speed up fund circulation? This is a vast country, yet thus far we still have not put together a price-reporting system for the entire country. Each continues to do things in his own way and access to information is limited. The policy-making agency has not worked out a set of rules for the financial system, from management system to business development. Rules relating to financial management are particularly lacking. In Lao Hao's opinion, there must be few rules and regulations if the economy is to develop.

"Before they come up with new regulations, dare you be innovative?" the reporter asked.

"I dare not go one step out of bound. Instead I just do as much as possible within the prescribed limit." He is a northwesterner after all.

Lao Hao suddenly stopped, but it seemed that he wanted to say more.

What did he want to say? This was what the reporter kept thinking about on his way home. When I visit the financial market next time, I will certainly have another chat with Lao Hao. Perhaps he will have some new ideas then.

### **Heilongjiang Reports Progress in Housing Reform**

*SK2107143292 Harbin Heilongjiang People's Radio Network in Mandarin 1000 GMT 16 Jul 92*

[Text] Heilongjiang Province achieved marked progress in housing reform in the first half of this year. Early this year, the provincial party committee listed housing reform as one of the 12 major tasks for this year, and provincial government also listed it as a target covered in the responsibility system. In line with the requirements of the provincial party committee and government, all localities made positive efforts to promote housing reform, thus creating a provincewide climate for housing reform.

Since the beginning of this year, the four cities of Jixi, Hegang, Jiamusi, and Mudanjiang have officially issued plans for their comprehensive housing reform. Harbin City has also begun large-scale mass discussions on its plan for the housing reform. County-level comprehensive housing reform has been notably accelerated.

Another 41 counties, county-level cities, and city districts have begun their comprehensive housing reform this year, making the number of cities, counties, and districts conducting the comprehensive housing reform account for two-thirds of the province's total. Cities and counties which did not carry out comprehensive housing reform have begun single-item reform. Regarding single-item reform, collecting funds for house construction has developed rapidly. By the end of June, 600 million yuan had been invested jointly by the state, relevant units, and individuals to build 1.5 million square meters of houses. By the end of this year, the floor space of the houses built with the funds collected by the three parts is expected to exceed 2 million square meters, accounting for one-sixth of the urban houses started this year.

According to (Yao Bing), deputy leader of the provincial leading group for housing reform, Heilongjiang's housing reform in the first half of this year had the following three characteristics. First, leading persons of the 10 large and medium-sized cities paid close attention to housing reform and adopted various measures to urge the execution of housing reform plans. Second, attention was given to the reform of low rent, which is the key link. All the 10 large and medium-sized cities drew up the housing reform plans focusing on raising rent and giving subsidies to the increased rent. Third, single-item reform was gradually extended to become comprehensive reform. All the 10 large and medium-sized cities started with the experiments in single-item reform and extended it to comprehensive reform whose major contents were to reform the low rent, apply the fund accumulation system, sell old public houses, buy bonds for houses, and collect funds for housing construction.

## FINANCE, BANKING

### Article on Developing Capital Stock Funding

HK1207013092 Beijing JINGJI GUANLI in Chinese  
No 3, 5 Mar 92 pp 27-32

[Article by Qi Liang (7871 0081): "Establish Socialist Enterprise Capital Stock Funding Mechanism"]

[Text] I. Insufficient Construction Funds Due to "Bottle-necks" in Capital Funding

The contradiction between the supply of construction funds and demand for investment in fixed assets has gradually become more outstanding in recent years, and the shortage of construction funds has become more and more serious in the country's economic work.

Construction funds are currently raised through five major existing channels. The first is public finances, including funds for construction allocated from central and local government finances. During the 12 years from 1979 to 1991, investment funds from government finances rapidly decreased in proportion despite an absolute increase. In particular, construction funds from the central government budget, which has undertaken

significant construction tasks, have been dwindling. The second are funds accumulated by enterprises themselves for investment in fixed assets. Enterprise reforms, which are aimed chiefly at delegating more power to enterprises and allowing them to retain a proportion of profits, have failed to realize the original intention of enhancing their capacity for self-transformation and self-development. The drastic decline in economic results suffered by enterprises have further weakened their self-accumulation power. The third is the use of foreign funds. Although direct foreign investments may increase during and after the Eighth Five-Year Plan period, the peak period for foreign debt repayment has arrived. Under the precondition of maintaining a balance between the inflow and outflow of foreign capital, there can only be a small increase. The fourth is bank loans. Although the increase in citizens' bank deposits has made more funds available for loans, the banks cannot use them excessively for long-term fixed asset investments because of the high liquidity of bank deposits. It is difficult to rely on banks to increase large-scale lending for fixed asset investment so as to make up for a shortage of funds from other investment sources. The fifth is the stock market, a channel for capital pooling which has undergone fast development in China recently. Of the total quantity of securities issued, only about half is for investment in production, and the other half is for government finances. This investment channel also includes capital stock funding. Although stocks have been issued for a very small proportion of the total amount of funds pooled by issuing securities and bonds, in reality, the amount of stocks issued to pool funds is even smaller. Nevertheless, the issuance of stocks has significance as a breakthrough as it sets a precedent for capital stock funding.

The income of China's citizens has in fact been increasing rapidly since 1979, and citizens' bank deposits in both cities and rural areas have increased by 34 percent annually. Total bank deposits at present exceed 800 billion yuan and this, plus cash in the hands of depositors, may exceed 1,000 billion yuan. Based on this and present growth rates, it is thought that citizens' bank deposits in China will exceed the present value of total fixed assets owned by the whole people in one or two years. Due to the forced reduction of consumption before the reform, the rapid increase in bank deposits has helped maintain a considerably high savings rate in China. According to a report by the World Bank, only a few neighboring countries and regions in east Asia once achieved that level. As viewed from the structure of bank savings, while total bank deposits have become enormous and have continued to increase rapidly, banks savings have gradually concentrated in high-income groups, which accounts for 20 percent of the depositors. This shows that bank savings tend to stabilize and also shows that citizens' deposits have begun to change from a consumption nature to an investment nature. The huge sum of citizens' deposits is undoubtedly an enormous reservoir of funds and will play an inestimably positive

role in supporting investment and economic development. However, in sharp contrast, we face hard times in raising construction funds and have failed to tap potential. The major causes of the current situation are that channels for raising funds are impeded and that there is a lack of stable and effective channels for turning bank deposits into investments. Following 12 years of structural economic reforms in China, bank deposits are no longer funds for consumption in the traditional sense. A pattern of most bank savings being separate from most investment has been formed and this pattern has had a powerful and irresistible development trend. The reform of the investment structure conducted since 1979 has been notably effective, but the existing investment system still runs counter to the objective fact that most bank savings are separated from most investment and that the system was set up and operates on the assumption that funds for investment are available. Evidently, therefore, it is impossible to eliminate funds shortages within the existing investment system. Undoubtedly, the detachment of investment from fund-raising is a major defect in China's reform and development.

## II. Debt Funding and Capital Stock Funding

Debt funding refers to raising funds by borrowing money. For the lender, the recovery time and return are fixed. For the borrower, borrowing must follow certain legal procedures, and regardless of business conditions, the borrower must repay both principal and interest in accordance with the contract. The debtor, therefore, shoulders most of the risks involved.

In a commodity economy, capital stock funding is a major means adopted by enterprises to raise funds. The owner of equity capital obtains benefit only when the enterprise's business income exceeds its debts, and the benefits have risks. For the fund-raising side, once the equity capital enters the enterprise, it becomes funds at the disposal of the enterprise and the enterprise undertakes no responsibility for repayment or losses. In capital stock funding, the investor, therefore, shoulders most of the risk.

Without equity capital, newly established enterprises cannot turn investment opportunities into reality. Existing enterprises can improve the structure of their funds by absorbing equity capital to increase the funds at their disposal. As it is not absolutely necessary for enterprises to pay their earnings to stockholders, the bigger the ratio of capital stock to debt, the stronger the enterprises will be in withstanding temporarily low profits or losses. Therefore, enterprises are capable of withstanding the risks involved in structural readjustment, technical transformation, and the improvement of products. In addition, the proportion of capital stock against the enterprise's total funds or the ratio of capital to debt serves as a basic criterion for judging the enterprise's credibility in raising funds. Due to the role of capital stock as security for debt, greater capital stock indicates a stronger credit ability that allows enterprises to have stronger financial support for their development.

In China, capital stock is practically the same as funds at the enterprise's disposal. Under the traditional system, funds at the enterprise's disposal are mainly from government finances and investment in fixed assets by enterprises is supported mainly by government finances. Once entering enterprises, government financial funds are at enterprises' disposal. In this sense, they are similar to equity capital as both are of a risk-capital nature. Obviously, the characteristics of capital stock funds have far-reaching significance for China's enterprises, which face the urgent and heavy task of upgrading and transformation. With the deepening of economic structural reform, the survival and development of China's enterprises depend largely on the availability of new sources of capital stock funds or funds of a similar nature.

If a country relies too much on funding through debt, it can have negative consequences for both its macroeconomy and microeconomy. In terms of the macroeconomy, if the proportion of debt funding is too high, temporary economic decline or low growth rates result from structural readjustment or other factors may cause a widespread and protracted debt crisis and place the whole economy in a prolonged recession. In terms of microeconomics, heavy debts severely weaken an enterprise's ability to withstand difficulties and internal and external shocks could trigger a crisis for such enterprises and cause financial instability.

Today, most developing countries have mainly resorted to heavy borrowing for funds. This, to a large extent, is due to the restrictions of their level of economic and financial development. Japan achieved some success in mainly depending on debt funding in the early stage of its development. In addition to a solid technological foundation and good enterprise and social security systems, a more important factor was its unique environment for development. Heavy borrowing, generally speaking, succeeds only if enterprises can develop at very high speed. The favorable international environment, which provided opportunities for the full development of enterprises, made it possible for Japan to raise funds by incurring heavy borrowing at that time. It should be noted, however, that the development conditions Japan had at that time, particularly the favorable international environment, are not available for the overwhelming majority of today's developing countries, including China. This means that, first, Japan's experience in this regard has limited reference value for China; and second, heavy borrowing as currently practiced by most other developing countries is not the road we should follow.

Changes in the pattern of national revenue distribution since the start of reform have fundamentally altered the ways in which enterprises obtain their funds. As a matter of fact, China has relied chiefly on debt funding to support investment and economic development in recent years. At present, the percentage of capital stock funds for new and old enterprises, that is, funds at their disposal, is less than 30 percent of their total funds and funds obtained by borrowing accounts for more than 70 percent. In some enterprises, the percentage of funds

from borrowing is as high as 80 percent, even over 90 percent. According to general rules of a commodity economy, enterprises with a high percentage of funds obtained by borrowing in China are, in fact, on the verge of bankruptcy. Quite a number of enterprises are actually going bankrupt. The "debt chain" problems caused by the economic slowdown after 1989 are still serious today. Apart from exposing problems existing in the country's economic and enterprise mechanisms, such problems indicate imbalances in enterprise fund structures caused by restrictions on raising funds and a resulting extremely poor capacity to withstand shocks. Regrettably, this important issue has not been fully understood.

Under the current system, the state takes on unlimited risks for enterprises owned by the whole people. In addition, the state also undertakes a series of social responsibilities for collectively owned enterprises. Under these circumstances, the state actually undertakes risks for both the enterprises and the financial sector. The poorer the capacity of enterprises to withstand shocks, the bigger are the risks undertaken by the state. In addition, from the perspective of development, even if the distribution of national income stops emphasizing the interests of individuals, newly established enterprises under the existing funding modes will inevitably rely excessively on debt funding. Funding of existing enterprises will also inevitably tend to incorporate more debts. All enterprises will, therefore, inevitably slide to even higher debt ratios. The risks caused by this are far greater than the risks caused by the impact of bank deposits on the market which we are already aware of. We must fully understand this and be on full alert.

### III. Two Points of Enlightenment

The lack of a sound funding mechanism has given rise to the contradiction of a shortage of construction funds and an excessive dependence by enterprises on debt funding, which creates enormous potential danger in the economy. This is the reality that we have to face. Besides, what important enlightenment do we gain from real economic life?

#### 1. Raising funds: Eager enterprise demand for risk capital

Raising funds is an important economic phenomenon that has emerged during China's structural economic reform and will become increasingly more outstanding. In areas with greater economic vigor, fund raising activities are more dynamic. In recent years in particular, "haphazard fund raising" has brought considerable chaos to the country's financial and economic order. Necessary measures should be taken to strengthen administration in the field. But what economic mechanism exists behind the phenomenon of raising funds? Is it simply an accidental phenomenon resulting from losing macroeconomic control or is it a reflection of some objective trend of economic development? These questions merit thorough study.

This author believes that the emergence of the phenomenon of raising funds and its "haphazard" development reflect deeper objective needs of China's economic development in the course of reform. They particularly reflect the growing demand for risk capital (equity capital or similar funds) for both established and new enterprises. Numerous ways for enterprises to raise funds have developed rapidly in recent years. They include the issuance of stock certificates, risk mortgage funds for contracted enterprises, funds contributed by newly recruited employees in lieu of work, raising funds with products from among enterprises involved in the same processing chain, and fund raising within enterprises. They all bear the characteristics of risk funding. According to general economic rules, apart from the issuance of stock certificates by a small number of enterprises selected for experiments in the share-holding system, all of these are not normal ways of raising funds. These abnormal methods are options many enterprises are forced to take in order to survive and develop when there is shortage of funds but no normal ways of risk funding. Currently, we are attempting to legitimize the majority of these fund-raising methods and to enhance administrative and legal controls. In reality, this is just an expedient measure. With the deepening of reform and the development of the economy, the existing ways of administering fund raising will soon drag us into a dilemma. On the one hand, the growing demand by enterprises for enormous risk capital will inevitably push fund raising to an even bigger scale in terms of quantity and more abnormal methods will be employed. Although this will enable enterprises to survive and develop temporarily despite impeded channels for investment risk capital, it will eventually lead to chaos in the financial and economic orders and will damage the stability of the macroeconomy. On the other hand, depending on relatively effective administrative measures to maintain macroeconomic stability will inevitably sacrifice the vigor of enterprises to survive and develop, and thus, fundamentally hinder economic development.

Therefore, the only choice to satisfy enterprises' objective demands and to enhance their vigor while macroscopically maintaining economic stability is to explore channels for risk capital funding that are in line with objective economic laws in China, to support capital stock funding, and to manage in accordance with general securities market principles.

#### 2. Multichannel investment: The initial form of capital stock funding

Because of dispersed financial resources since reform began, a single investment body finds it difficult to invest in fixed assets in a capital construction project. Except for small-scale upgrading and transformation, projects funded by a single financial source have been rare. The majority of construction projects are jointly funded by several investment bodies or have multiple investment channels. Major state projects crucial to the national economy and people's livelihood are no exception. Multichannel investment is, in fact, an inevitable

form of joint venture which is unavoidable when financial resources are dispersed. Various investors involved will naturally have their own demands for rights and benefits and such demands are expressed not only during construction, but also in the operations phase after a project has been completed. During the past few years of practice in construction, various investors have spontaneously explored how to define property rights, share responsibility for debts, obtain benefits through sharing profits, and products or through other means, and so on. Capital stock funding to carry out joint-venture construction is an important result of such exploration. In some economically more developed areas, quite a number of new enterprises are jointly-funded enterprises established on the basis of the experience of the respective parties concerned, taking the organizational form of Sino-foreign joint ventures and drawing on the model of limited liability companies. This form of construction clearly defines the various rights and obligations of all investors involved, including property rights, benefits, and responsibilities. Practice has proved that this form of construction, although originating from multichannel investment, has gone beyond the low-level and disorderly state of multichannel investment in construction and can meet the objective demands of developing a socialist commodity economy. It has become a relatively stable and effective form of joint-venture construction and management and will possibly become a direction for production construction in China.

Although the construction form of capital stock funding has emerged in the field of construction in China, it is far from mainstream. The construction of the majority of projects, particularly in terms of fund-raising, is still of an elementary form. Because rights and responsibilities are not clearly defined, incessant violations of contracts and disputes over trifles occur. Disputes between various investors over property rights, benefits, and debt burdens become outstanding after projects are put into operation. This situation has already dampened enthusiasm for further investment from some small investors whose main goal is to make profits. Another important question is that, although multichannel investment is conducive to raising funds in the current structure, it does not form a mechanism for capital stock funding. In recent years, some investors who should have injected equity capital into projects have demanded to be allowed to convert funds into debts. This makes debts even heavier once projects go into operation, and some projects even find it impossible to repay their debts. At the same time, investors who invest through granting loans demand not only the repayment of debts but also a share of the property rights after projects are completed. This worsening chaos cannot but prompt us to search for a more stable method of joint-venture construction and management which is in line with economic laws on the basis of our existing multichannel investment. This is undoubtedly of great significance in promoting the healthy development of China's economy.

#### IV. Establish Capital Stock Funding Mechanism

Setting up a socialist capital stock funding mechanism in our country is neither theoretical reasoning nor a subjective prediction. It is an urgent objective demand for the development of the economy as well as the practices of reform and development in our country. With a large amount of bank deposits, areas where efforts should be made to mobilize funds and perfect systems should be concentrated on two aspects: First, under the precondition of upholding socialist public ownership, we should set up an enterprise mechanism to absorb equity capital; second, in accordance with the needs of developing a planned commodity economy, we should set up a funding mechanism compatible with capital stock funding. These two aspects are closely related to the two major issues of enterprise reform and development and financial reform and development, and we should seriously study them and formulate the relevant policies.

##### 1. Quicken reform of enterprise shareholding system

As mentioned above, demands for risk investment in China's enterprises have been growing rapidly. Enterprise risk funds, that is, funds at their own disposal, generally come from two possible sources: One is from the government finance channel and the other is from the issuance of fund-raising stock certificates. The years of economic structural reform have virtually cut off the close link between government finance and the majority of enterprises in terms of supplying funds. Whether viewed from the subjective wish to reform or the objective availability of financial resources, it is no longer possible to provide risk funds to enterprises from government finance. At the same time, while reform is an ongoing process, the current form of enterprises organization in China is far from close to that of shareholding enterprises, and as enterprises are not yet qualified as share-holding enterprises, they are unable to enter the field of capital stock funding.

To conduct capital stock funding, enterprises must base themselves on the share-holding system. Practicing the share-holding system should be the basic orientation for enterprise reform in China. The share-holding organizational form for enterprises, which came into existence more than 300 years ago, has made a tremendous contribution to raising investment levels and promoting high-speed economic development in most countries practicing a market economy. It has become the leading industrial organizational form in developed countries and many economists regard it as one of the important characteristics of a modern economy. Like many advanced methods of enterprise management and economic management, the enterprise shareholding system, though originating in capitalism and based on private ownership, does not mean a special form of ownership and does not necessarily coexist with just one particular social system. To practice the share-holding system based on public ownership in China is mainly to give play to its advantage of specified ownership in a bid to make the operational mechanisms of enterprises in China conform with the needs of developing a socialist planned commodity economy and to practice a commodity economy

in enterprises with respect to property rights, raising funds, distributing profits, and taking risks. This is totally different from "privatization" and will never alter the dominant position of public ownership.

Reform experiments with share-holding enterprises in recent years have achieved successes in many aspects. However, the time is not yet ripe to launch overall share-holding reform in existing enterprises at present, and we cannot expect to make the majority of enterprises qualified as share-holding companies. Under these circumstances, we should, in accordance with past successful experience in reform, concentrate major efforts on the "boundary" of the existing structure and proceed by bypassing difficult points. We should, therefore, change the current contradictory situation in which we painstakingly transform existing enterprises into share-holding ones while at the same time continue to organize and establish large numbers of enterprises on the basis of the old model. We should, with an incremental approach, establish a new enterprise formation mechanism on the basis of the limited liability company model for the formation of new enterprises.

According to general economic principles, limited liability companies should be the share-holding system adopted by new enterprises. To set up new enterprises on the basis of limited liability companies is conducive to raising funds for construction, and in particular, to helping enterprises use normal methods in line with economic development laws to raise capital. It is also conducive to raising the present primary joint venture form of multichannel funding in the field of construction in our country to a higher level. In addition, this is in line with the basic direction of enterprise reform. Incremental reform can also promote the share-holding reform in existing enterprises.

## 2. Form funding mechanism suitable to capital stock funding of new enterprises

Once the share-holding system is established, enterprises can obtain capital through issuing stock certificates or floating shares within a limited scope. New enterprises have inherent restraints on capital stock funding. During their construction and initial stage of operation, they do not have the conditions to raise funds from a large social range and should adopt the share-holding system of limited liability companies. Limited companies are mainly formed by legal persons in the capacity of shareholders with powerful financial strength. At present, possible legal-person shareholders in China would chiefly be: 1. Governments at all levels or representatives with property rights over fixed assets (for instance, administration organs of state-owned assets); 2. enterprises or enterprise groups with powerful financial strength; 3. institutional saving organizations, such as insurance companies, pension funds, and social security funds; 4. investment companies of various kinds; 5. investors from abroad who invest directly in China. With regard to these five types of legal-person shareholders, our existing practices and regulations for overseas investors have become quite mature and sound. Generally speaking, the utilization

of foreign funds can only play a limited supplementary role in China's investment field and foreign direct investment cannot become the major part of capital stock funding for enterprises either. However, Sino-foreign-invested enterprises have important value as reference for us in terms of enterprise organization.

In government and enterprise investments, we have gained some successful experiences in more than a decade of reform and development. The establishment of administration bodies for state-owned assets and state investment companies and the latter's functions as shareholders are an important step towards eventually establishing a rational status and role for government investment in enterprise capital stock funding. To some extent, governments and enterprises, as major investment bodies, have already played the role of legal-person shareholders in productive construction. However, to make these two types of major investment bodies become real legal-person shareholders, it is still necessary to deepen reform in the investment structure, the administration of state-owned assets, the enterprise structure, and so on.

In accordance with the need to turn bank deposits into investment and to strengthen institutional investment bodies, the focus in establishing a funding mechanism suitable for enterprise capital stock funding is to develop investment bodies with a legal-person shareholder nature, such as institutional savings bodies and investment companies.

In most countries, the role of institutional savings bodies in encouraging savings, including insurance companies, pension funds, and social security funds, is second only to that of the banks. Funds mobilized by institutional savings bodies are characterized by stability in quantity, duration, and high predictability. They can withstand great shocks. They supply large quantities of long-term funds and a certain percentage of funds can be used for investment in more profitable projects or enterprises through buying shares. With the deepening of reform and with the gradual reform of the social security system in particular, part of China's citizens' bank deposits will flow to institutional savings bodies, and these funds will then play a vital role in the capital stock funding of enterprises in China.

There are currently nearly 1,000 investment companies in China. Through reform and development, these investment companies can become an important medium between citizens' bank deposits and enterprise capital stock funding; and important legal-person shareholders in the share-holding economy. Through the issuance of long-term bonds, including convertible company debentures in the stock market, investment companies can, in addition to using funds obtained to engage in investment, use a certain percentage of their funds to buy enterprise equity through making use of changes in the time limits for debt repayment. In this way, they can, in the capacity of legal-person shareholders, introduce some residents' deposits in the form of capital stock into investment for construction.

With the exception of direct foreign investment, which plays only a supplementary role, the other four major types of legal-person shareholders mentioned above are

undoubtedly formed on the basis of public ownership and are of a "public stock" nature. Some convertible company debentures will eventually become privately owned stocks. However, because they are extremely small in number and are greatly scattered, they cannot alter the public ownership nature of enterprises.

According to the above-mentioned line of thinking on transferring savings to investment, and if a 10 percent transfer rate is taken for calculation, about one-third of citizens' bank deposits could be turned into investment in production in the form of capital stocks and credit funds. This would undoubtedly inject a powerful force to enhance the development of China's economy.

## INDUSTRY

### Industrial Output Value by Area in January-June

HK2907101092 Beijing CEI Database in English 29 Jul 92

[Text] Beijing (CEI)—Following is a list of the industrial output value by areas in China in the first half of 1992, released by the State Statistical Bureau:

Area	(Unit: 100 million yuan)		
	1-6/92	1-6/91	Change Over 1-6/91 (pc)
Total	13313.51	11260.30	18.2
Beijing	420.30	371.54	13.1
Tianjin	338.25	297.95	13.5
Hebei	524.43	452.00	16.0
Shanxi	268.27	250.00	7.3
Inner Mongolia	145.03	130.22	11.4
Liaoning	827.91	727.97	13.7
Jilin	297.25	261.33	13.7
Heilongjiang	450.03	431.00	4.4
Shanghai	1049.80	877.24	19.7
Jiangsu	1614.70	1279.65	26.2
Zhejiang	833.41	622.90	25.7
Anhui	359.06	298.11	20.4
Fujian	287.24	240.37	19.5
Jiangxi	239.72	199.94	19.9
Shandong	1097.46	908.36	20.8
Henan	506.96	433.98	16.8
Hubei	564.42	502.82	12.3
Hunan	389.92	342.58	13.8
Guangdong	1210.74	954.52	26.8
Guangxi	234.28	185.64	26.2
Hainan	30.61	23.60	29.7
Sichuan	699.16	604.75	15.6
Guizhou	119.77	102.48	16.9
Yunnan	211.54	183.79	15.1
Tibet			
Shaanxi	237.26	213.41	11.2
Gansu	157.93	145.22	8.8
Qinghai	28.23	27.86	1.3
Ningxia	39.32	36.11	8.9
Xinjiang	129.19	114.48	12.8

**Jan-Jun Gross Industrial Output Value***HK2307131592 Beijing CEI Database in English 23 Jul 92*

[Text] Beijing (CEI)—Following is a list showing China's total industrial output value in the January-June period of 1992, released by the State Statistical Bureau:

	(in 100 Million Yuan)		
	1-6/92	1-6/91	UP(PC)
Total	13313.5	11260.3	18.2
Including:			
Export products		1206.7	
Light ind.	6386.7	5507.8	16.0
Heavy ind.	6926.8	5752.5	20.4
State firms	8221.8	7297.4	12.7
Collectively owned ones	4090.9	3266.8	25.2
Others	1000.8	696.1	43.8

Note: The industrial output value is measured in 1990's constant yuan.

**Light Industrial Output Value by Area in Jan-Jun***HK2907094692 Beijing CEI Database in English 29 Jul 92*

[Text] Beijing (CEI)—Following is a list of the light industrial output value by area in China in the January-June period of 1992, released by the State Statistical Bureau:

	(Unit: 100 million yuan)		
Area	1-6/92	1-6/91	Change Over 1-6/91 (pc)
Total	6386.73	5507.84	16.0
Beijing	165.77	156.60	5.9
Tianjin	156.83	144.74	8.4
Hebei	226.97	201.86	12.4
Shanxi	63.27	59.37	6.6
Inner Mongolia	56.94	40.25	15.6
Liaoning	225.51	211.72	6.5
Jilin	110.99	104.70	6.0
Heilongjiang	142.48	140.83	1.2
Shanghai	494.48	445.75	10.9
Jiangsu	853.15	713.85	19.5
Zhejiang	532.42	431.11	23.5
Anhui	187.13	158.08	18.4
Fujian	178.63	149.85	19.2
Jiangxi	109.59	92.69	18.2
Shandong	566.43	464.66	21.9
Henan	234.16	200.52	16.8
Hubei	253.65	235.94	7.5
Hunan	166.37	149.83	11.0
Guangdong	824.74	659.76	25.0
Guangxi	137.43	107.97	27.3
Hainan	22.73	18.13	25.4
Sichuan	302.00	270.04	11.8

Area	(Unit: 100 million yuan)		
	1-6/92	1-6/91	Change Over 1-6/91 (pc)
Guizhou	46.29	40.47	14.4
Yunnan	110.20	97.37	13.2
Tibet			
Shaanxi	94.17	91.17	3.3
Gansu	42.95	38.01	13.0
Qinghai	7.59	8.23	-7.8
Ningxia	9.29	8.48	9.6
Xinjiang	63.97	56.70	12.8

Note: Industrial output value is measured in 1990's constant yuan.

### Jan-Jun Mechano-Electronic Product Output

HK2307131192 Beijing CEI Database in English 23 Jul 92

[Text] Beijing (CEI)—Following is a list of the output of main mechno-electronic products in the January-June period of 1992 released by the China State Statistical Bureau:

Item	unit	1-6/92	1-6/91	UP(PC)
Power equipment	10,000 kw	513.90	462.54	11.1
Alternating-current motor	10,000 kw	2378.91	1834.47	29.7
Industrial boiler	t	35224	25919	35.9
Metal cutting machine tool	10,000 s	9.75	6.95	40.3
Digital control tool	s	2786	1805	54.3
Precision machine tool	s	669	556	20.3
Large machine tool	s	1688	1239	36.2
Automobile	10,000	49.21	33.18	48.3
Truck	10,000	24.10	19.36	24.5
Tractor (over 20 h.p)	10,000	3.65	2.98	26.3
Small tractor	10,000	86.36	80.53	7.2
Locomotive	s	362	352	2.8
of:diesel motor	s	274	256	7.0
steam motor	s	18	3	500.0
power motor	s	70	93	-24.7
Passenger car	s	756	870	-13.1
Freight wagon	s	12312	11217	9.8
Internal combustion engine	10,000 kw	4394.3	3411.9	28.8
Fishing ship	49	29	68.9	
Civil steel ship	10,000t	68.51	56.88	20.4
Computer	s	93	122	-23.8
Mini computer	s	33349	36021	-7.4
Pocket calculator	10,000s	599.19		
Program-controlled switchboard	10,000s	69.89	20.82	235.7
Film projector	10,000s	0.58	0.49	18.4

Notes: t—ton, s—set, kw—kilowatt

**Jan-Jun Raw Materials, Textile Output Figures***HK2807090592 Beijing CEI Database in English 27 Jul 92*

[Text] Beijing (CEI)—Following is a list of the output of raw materials in the January-June period of 1992, released by the State Statistical Bureau:

ITEM	UNIT	1-6/92	1-6/91
Iron ore	10,000 t	9295.0	8445.0
Pig iron	10,000 t	3618.5	3174.6
Steel	10,000 t	3875.9	3367.8
Rolled steel	10,000 t	3176.3	2684.89
Ferro alloys	10,000 t	115.01	107.24
Coking coal	10,000 t	2804.26	2643.06
Ten nonferrous metals	10,000 t	140.24	120.95
of: Copper	10,000 t	31.69	27.68
Aluminium	10,000 t	50.95	44.96
Copper products	10,000 t	28.09	23.04
Aluminium products	10,000 t	25.75	21.14
Alumina	10,000 t	79.40	71.79
Sulphuric-iron ore	10,000 t	685.28	573.76
Phosphorus ore	10,000 t	1110.15	998.49
Timber	10,000 cu m	2,139	2,109
Artificial board	10,000 cu m	174.84	125.82
Cement	10,000 t	13496.3	11139.0
Plate glass	10,000 c	4506.96	4197.06

Notes: t - ton, cu m - cubic meter, c - case

Following is a list of the output of textiles in the January-June period of 1992, released by the State Statistical Bureau:

ITEM	UNIT	1-6/92	1-6/91
Yarn	10,000 t	237.55	244.11
Yarn	10,000 pc	1322	1358
Cloth	100 m.m	82.15	86.96
of: Pure cotton	100 m.m	47.66	50.20
Chemical fiber	100 m.m	8.86	9.69
Silk	10,000 t	3.15	2.72
Silk fabric	100 m.m	11.51	8.32
Woolen fabric	10,000 m	13514	13652
Knitting wool	10,000 t	13.74	10.63
Gunnysack	10,000 pc		32225
Garment	100 m.pc	13.23	10.93

Notes: t—ton, pc—piece, m.m—million meter, m.pc—million piece

**QIUSHI on Auto Industry Technology Advancement**

*HK0208014592 Beijing QIUSHI in Chinese  
No 8, 16 Apr 92 pp 35-38*

[Article by Jilin Provincial CPC Committee Research Office: "Technological Transformation Energizes No. 1 Automobile Works"]

[Text] The No. 1 Automobile Works, a key project during the national First Five-Year Plan, was completed and began production in 1956. Aging, however, has become an increasingly serious problem for its equipment and products, as the plant experienced no fundamental technological transformation before the 1980's. The policy of reform and opening to the outside world has energized the No. 1 Automobile Works and has

created conditions for its technological transformation. Since 1983, the No. 1 Automobile Works has implemented a large-scale series of technological transformation and renovation. The No. 1 Automobile Works, now with a completely new look, has become a large modern automobile manufacturing base with first-class national and advanced international technologies. The No. 1 Automobile Works has also discovered a set of successful approaches for updating technology in older enterprises.

#### **Take Product Renovation as the Key Link To Promote Technological Transformation**

Products are the lifeblood of an enterprise. Aging products and backward technology, ensure an enterprise's decline, while new products and advanced technology guarantee its prosperity. Only by improving products and updating technology can we grasp the key link.

For quite some time, the No. 1 Automobile Works' primary product was the medium-sized truck "Liberation." This product remained unchanged for decades, and its technology was basically the same as in the 1950's. With the development of the commodity economy, the automobile market changed gradually from a sellers' market to a buyers' market, and eventually it was no longer possible to sell the old "Liberation." At its worst phase, there were more than 20,000 trucks in stock which could not be sold, thus causing serious financial problems for the enterprise, threatening its continued production. Harsh reality taught the staff and workers of the No. 1 Automobile Works that they would have to make great efforts to update technology as part of the central task of developing new advanced products if they wanted to maintain their powerful position in national and international market competition. To solve the product-aging problem, the No. 1 Automobile Works took vigorous steps to develop new products over the last few years. In 1983, the plant developed the new model CA 141 "Liberation" on its own initiative; it passed state requirements and was acknowledged to have reached the advanced international standards of the late 1970's or early 1980's, a three-decade jump over the old "Liberation." This jump in product quality set the demand for a corresponding jump in technology. To this end, the No. 1 Automobile Works began a large-scale technological transformation in 1983, focusing on the transformation of its product model as the main task. While maintaining the practices of plain living and hard struggle—as they did at the founding of their plant—the staff and workers struggled for three years under a full work load to accomplish technological transformation equivalent to no less than building a new factory. They increased their production area by 133,700 square meters [sq m], reconstructed the old workshops of 71,000 sq m, and put into use 62 new materials and 74 new technologies at the advanced national level or the advanced international level of the 1980's. They renovated 7,631 sets of their equipment, including 359 sets of key equipment that had been introduced from abroad; this enabled them to set up 79 new production lines and update 124 existing production lines.

The success of this model transformation not only guaranteed that the new model CA 141 would go into production as scheduled and would reach the projected output but also brought about fundamental changes to the plant. With the obvious improvement of its manufacturing and assembling techniques, the No. 1 Automobile Works now possesses a fairly high capacity for self-transformation and self-development. The No. 1 Automobile Works is now coming into a new stage of product development which is capable of renewing its products constantly and has made the necessary preparations for the development of light-duty trucks and sedans. With the transformation of models, the plant transformed its management and gradually developed the new management style appropriate for the commodity economy in a planned way. The economic benefits were greatly increased. As compared with the years before model transformation, the productive value and sales revenue of 1987 increased by over 60 percent; the similar output of automobiles and the per capita tax revenue margin doubled. The model transformation also resulted in an obviously good social result: Compared with the old "Liberation," the new "Liberation," which is characterized by lower oil consumption, higher speed, and longer time between servicing, would save 6,000 to 7,000 yuan each annually. If the annual output is 68,000 sets, the total social benefit would be approximately 450 million yuan annually. In addition, the reduced exhaust emissions of the new model apparently causes less air pollution.

The No. 1 Automobile Works was not satisfied with these achievements, however. With their passionate aspiration for vigorously developing the national automobile industry, the staff and workers of the plant took the experience of other countries as a reference to further adjust their product mix and begin the comprehensive development of medium-size and light-duty trucks and sedans. Because there were few heavy- and light-duty trucks in China, they integrated some local enterprises to begin work on a project to produce 60,000 light-duty trucks. They established the Second Foundry and the Second Engine Factory and transformed 18 specialized factories and five local enterprises. The Second Foundry is not only large; it is also technologically advanced and equipped with high-tech equipment. The light-duty truck base is now virtually complete, and its first batch of products will soon be put on the market.

Noticing that the flood of foreign makes kept coming in, the staff and workers at the No. 1 Automobile Works, in an effort to reform the old production line for the Red Flag sedan, have accomplished the first phase of a project to produce 30,000 Audi sedans. While still engaged in construction, they began to arrange production and now have produced a total of 15,000 Audi sedans, thus having filled our country's gap in producing medium- or high-quality sedans. In addition, the No. 1 Automobile Works has entered into a joint venture with Volkswagen of Germany, undertaking a new project to produce 150,000 popular sedans; everything is now

going smoothly. The completion of this project will not only help the No. 1 Automobile Works update its technology a great deal and bring it tremendous economic benefits, but it will also help the plant meet our nation's need to refurbish those sedans that are in active service, protecting the nation's economic interests.

#### **Accomplish Major Tasks With Less Money on the Basis of Exploiting Existing Potential**

Technological transformation calls for a corresponding investment of funds, and unfortunately, the most serious problem the No. 1 Automobile Works encountered in its technological transformation was precisely the severe shortage of funds. Being aware of this, the staff and workers at the plant displayed the spirit of building an enterprise through hard work and focused on fully exploiting their own potential. In limited increments, they guided and mobilized the stock, consistently making new progress in transforming the enterprise's technology with less contributed capital. To solve the problem of fund shortages, the No. 1 Automobile Works has brought into play every possible mechanism to open more channels for raising money. In line with the principle of mutual benefit, the No. 1 Automobile Works has raised more than 400 million yuan for its transformation and development over the last few years. By issuing bonds to its staff and workers, the plant built up a fund worth 30 million yuan for the construction of the CA 141 project. For the construction Audi and Golf sedan projects, the plant raised money from its staff and workers three times, for a total of 100 million yuan. With the approval of the General Office of the People's Bank of China, the plant has set up a financial company affiliated with the "Liberation" auto industry, and has begun providing deposit, loan, and leasing services. Over the last few years, the total working capital reached 2.3 billion yuan, thereby mitigating fund shortages among its member plants and sustaining the plant's normal operations in production and technological transformation.

One effective way to save money is to make full use of original equipment. In line with the principle of "key process—advanced and precise, general process—rational and applicable," the plant tried to fully use its old equipment in its transformation, in view of the fact that old plants have much equipment with great potential. For that equipment which was ready to be used directly, the plant made every effort to put it on the new production lines, thus combining the old with the new. For equipment that could not be used directly, the plant transformed it with new technology and thus "rejuvenated" 24 old production lines and more than 150 pieces of old equipment.

To make positive and flexible use of their funds, the No. 1 Automobile Works adopted many kinds of introduction and importation procedures. In the course of introducing foreign advanced technology and importing foreign advanced equipment, the No. 1 Automobile Works was very careful about the way it spent its money. The

plant saw to it that it did not introduce hardware if it could make do with software and that it did not import the entire production line if it could limit itself to importing the key pieces of equipment, thus having achieved the good result of accomplishing major tasks without spending much money. In model transformation, the staff and workers focused their imports on raising engine quality, improving driver comfort, and increasing chassis reliability. By spending only 38 million dollars—20 percent of the total investment—they succeeded in introducing 14 key techniques and improved the technical equipment of the plant as a whole in accordance with the requirements of the transformation. They also adopted the method of coordinating technology with marketing and imported—for a considerably small amount of money—second-hand equipment which three key production lines needed for manufacturing sedans, thus greatly accelerating the pace of the sedan project's construction.

To tap new funding sources and to practice self-accumulation, the staff and workers adopted various kinds of construction practices. In the transformation of model CA 141, they adopted the mode of nonstoppage; while transforming the model, they also continued with production and accumulation. The self-accumulated funds account for 80 percent of the total project investment. In the light-duty truck project, they adopted the method of cooperating with local enterprises, absorbing local fixed assets of approximately 900 million yuan. For the project involving 150,000 Golf sedans, they entered into a joint-venture with Volkswagen of Germany, and foreign capital accounted for 40 percent of the total investment. With the government's support, the project for manufacturing 30,000 Audi sedans was carried out primarily using the method of rolling interests. While still working on the construction, they began turning out new cars. They adopted the method of supporting construction with production and achieved very good results.

Thanks to the adoption of the above methods, the No. 1 Automobile Works succeeded in accomplishing major tasks without spending much money and guaranteed the smooth operation of technological transformation. Foreign experts once predicted that the transformation of model CA 141 would cost 2.2 to 2.4 billion yuan; however, the No. 1 Automobile Works accomplished this large-scale project using only 700 million yuan, which it had raised by itself. The original plan for the light-duty truck project called for a 1.07 billion yuan investment, but the plant used only 200 million yuan and accomplished the entire project one year ahead of schedule.

#### **Combine Introduction With Self-Development, Make Dramatic Progress**

Technology in the auto industry is already highly advanced in the developed countries, and therefore, we must introduce advanced technology and make dramatic progress from a high starting point—rather than sticking

to conventional ways of doing things—if we want to catch up with the developed countries in a very short period of time, stave off the flood of foreign makes, and gain a fairly high competitive position in the international market. Money cannot buy sustained advanced technology, however. Only by increasing our own abilities of self-development on the basis of technological introduction can we succeed in catching up. Based on this understanding, the staff and workers at the No. 1 Automobile Works have found their own method known as “high-level self-reliance.”

While learning from others and making progress from high starting points, the staff and workers at the No. 1 Automobile Works always focus on the world's newest technology. Seizing an opportunity, they begin to introduce or import actively. Taking advantage of the restructuring of the international industrial structure, they introduced more than 40 advanced techniques from over 20 countries over the last 10 years and thus further strengthened their technical superiority. The No. 1 Automobile Works now possesses the Audi sedan manufacturing techniques, which are up to the advanced international standards of the 1980's. The sedans that have been produced have found a good market in China. The Golf sedan welding and assembly line, consisting of 66 robots, will not only remain the most advanced domestically even over the next few years, but is also by no means inferior to other advanced international standards.

The staff and workers of the No. 1 Automobile Works concentrated their efforts on the digestion and absorption of the introduced techniques; they made these techniques theirs. What really counts in introduction or importation is digestion and absorption. The staff and workers persisted in having a good grasp of this concept and developed their own distinguishing features. They adopted the method of joint design with the foreign part and systematically imported several foreign advanced techniques, such as the pipe radiator, the roller wheel, and the cathode electrophoresis method of paint application. They focused on the key technical problems and spared no pains to understand and master them perfectly. Very soon, they had the capability of self-design and self-manufacture. They also paid a great deal of attention to combining the introduced techniques with existing practices. For example, by applying the introduced techniques for manufacturing combines, they managed to accomplish the design and manufacture of the hexagonal cylindrical shaper and of the production line for forging front sills. They imported only one four-point-double-acting 1,000 ton mechanical press, and were able to build five complete sets of presses and their accessories using all home-made equipment and set up an advanced production line for car doors. In developing light-duty trucks, they adopted the method of “three combinations,” that is, the combination of the imported driver's cab from Japan and the imported engine from the United States with the self-designed chassis. They have now formed an entire product line

composed of more than 20 varieties such as the single and double seater, the long and short axle, and the one- and two-ton light-duty trucks and vans.

In order to narrow the gap and catch up with advanced international auto industry standards, the No. 1 Automobile Works must have more capital investment in its scientific research so it can enhance its capacity for design, self-development, and innovation. To this end, the plant integrated its auto research institute with the institute affiliated with the ministry and the plants' design institutes. They formulated the operating axiom that “production relies on scientific research, and scientific research is geared to the needs of production.” During the Seventh-Five-Year Plan, the auto research institute had a fixed asset investment of approximately 900 million yuan, more than a dozen times the investment at the end of the Sixth Five-Year Plan, thereby having greatly increased its technical strength. Over these 10 years, the institute has designed over 100 new models, 80 percent of which have been directly applied in the No. 1 Automobile Works or the national auto industry. The No. 1 Automobile Works not only has its own technological institute, material institute, and assembly design center, but also set up the largest national dye manufacturing base. These activities laid a solid technological foundation for the No. 1 Automobile Works and increased its ability for exploitation, self-transformation, and development. The No. 1 Automobile Works can now rely on its own efforts to carry out the tasks from basic research to applied experimentation, from product development to technological investigation, and from assembly design to manufacture of a particular model.

The dramatic progress in technology has enabled the No. 1 Automobile Works to realize its virtuous circle of “importation-digestion-innovation-exportation.” Its market objective has gradually turned from the single domestic market to both the national and international markets. Over the last three years, the foreign exchange the plant earned by exporting its products increased by \$5 million annually. Its sedans and trucks have been exported to more than a dozen countries and regions in Latin America, the Middle East, and southeast Asia, and the number of orders is getting larger and larger. Its export of automobile parts has also expanded to more than 50 countries and regions. The specialized plants for producing wheels and radiators have become the export base, and the radiator plant even made a breakthrough in the competitive North American market.

#### **Stress Increasing Personnel's Technological Proficiency and Guarantee Success of Technological Transformation**

True, an enterprise is unable to produce technologically advanced products without advanced technical equipment. Nevertheless, if there is only advanced technical equipment without personnel who have a fairly high technical proficiency, an enterprise is not in the position to make full use of its advanced equipment. Therefore,

whether an enterprise can raise the technological proficiency of its staff and workers in the course of technological transformation will be directly related to the success or failure of its technological transformation. The No. 1 Automobile Works has made a valuable study of this problem and has achieved very good results.

The No. 1 Automobile Works, proceeding from the needs of its production and technological transformation and adopting different educational methods to conform to the different levels of knowledge of its staff and workers, has formed a preliminary education and training system with its own characteristics. During the three years of model transformation, participation in various kinds of technical training classes held by the plant came to approximately 170,000. Over the last few years, annual admissions to short-term technical training classes totaled more than 80,000. Leading cadres, apart from those from the head office or specialized plants who are asked to attend the course of lectures on auto technology, are all asked to pass the "four tests"—auto configuration, enterprise management, computer skills, and foreign language. So far, more than 7,000 cadres, 60 percent of all the cadres so asked, attended the training class for the "four tests"; there are now more than 7,000 specialized technicians in the No. 1 Automobile Works. In order to enable them to meet the needs of its technological progress, the plant has carried out a continuing education program in engineering for its professional technicians called "five combinations," that is, combining the development of new products with running various kinds of technical training classes; combining the introduction, digestion, and absorption of advanced technology with arrangements for personnel making investigations or receiving training abroad; combining the transformation of old equipment with brushing-up on knowledge; combining modernized management practices with a comprehensive education on quality control, value engineering, and system engineering; combining the plant's development needs with the readjustment of its policy in running schools and determining the curriculum. The plant also carried out various kinds of activities among its staff and workers such as post training, technical proficiency assessment or technical contest. Models and talents such as "the master of numerical control" and "the technical pace-setter" emerged in large numbers among the young people in their studies. The No. 1 Automobile Works attached great importance to investment for education; the annual allocation for its staff and workers' education is over 10 million yuan. Now it has formed a fairly comprehensive educational system for its staff and workers with a teaching staff of more than 1,000 people. The plant itself now can provide education from special or technical secondary schools to graduate schools.

The No. 1 Automobile Works adopted effective measures and institutions to encourage its staff and workers to acquire new knowledge and learn new techniques. To direct its cadres's study, the plant used primarily its own institutions. To encourage its technical staff and workers

in their studies, the plant primarily adopted its own policies and measures. By showing concern for their political progress, trusting them with new tasks and relieving them from life's little worries, the plant enabled its technical staff and workers to find and realize their own ideal as well as the value of life and helped them merge their personal goals with the cause of the enterprise. While paying attention to their real ability and learning and abolishing the practice of life tenure, the plant also formulated a whole system promotions and rewards to encourage its technical staff to give full play to their talents. To encourage the workers, especially the young ones, to acquire knowledge and become useful, the No. 1 Automobile Works formulated a series of policies: First, the creation of a bonus fund used exclusively to cite and reward young people in their studies. Second, the regular election of the "New Star on the Job." There have been more than 20 staff members and workers honored with this title, who enjoy treatment similar to model workers in their salary, bonuses, and housing. Third, the establishment of a list of titles of technical or professional posts as well as regular review and promotion. There have been more than 600 workers promoted to technician or senior technician. Fourth, the renewal of the grades on the wage scale of the technical staff and workers according to their technical proficiency assessment. Last year, approximately 5,000 mechanics, electricians, and fitters were arranged to have training and assessment. Among them, 3,400 were granted qualifications. Fifth, the job-training system for ordinary workers. Unqualified workers are not allowed to take their post. With these policies, the plant tried to relate its workers' abilities to their wages and bonuses, and formed a fairly perfect system of encouragement and rewards. It also worked to bring the skills of its staff and workers into shape, thus effectively arousing the workers' enthusiasm for their studies.

#### **Automobile Trade Company Set Up 7 Aug**

*OW0708094192 Beijing XINHUA in English  
0850 GMT 7 Aug 92*

[Text] Beijing, August 7 (XINHUA)—The China Automotive Industrial Sales Company was set up today in Beijing under the approval of the State Council.

The state-run company was designed to guide the development of the automobile market in the country. The setting up of the company is a major step taken by the country to replace the traditional distribution system with an open automobile market.

The company was entrusted by the China National Automotive Industry Corporation, a state-run company controlling the production and sales of automobiles, to take part in and set up automobile markets at all levels in the country. The company will sign sales contracts with automobile producers and supply domestic and foreign made automobiles through its branches and service network all over the country.

The company was granted the right to import and export automobiles and spare parts. It will also run service stations, spare part sales houses and consultation business both in the country and abroad. It will be responsible for holding national automobile fairs and exhibitions.

Huang Fuheng was appointed general director of the China Automotive Industrial Sales Company.

## LABOR

### One Million Workers Move During Labor Reform Program

OW0308135192 Beijing XINHUA in English  
1319 GMT 3 Aug 92

[Text] Beijing, August 3 (XINHUA)—About one million Chinese employees have left their original jobs, and three-quarters of them found new jobs during the ongoing nationwide labor reform drive this year, a government official said here today.

Labor Minister Ruan Chongwu told a news conference that the labor reform is going on well and society remains stable.

There are a number of workers who left their original jobs but are employed by the same enterprises after going through training programs. Only about 10 percent of the employees who left their jobs have to get help from labor organizations. "There is still a small number of unemployed people in the country," the minister said.

He continued that job changes are closely related to economic development. The unemployment rate was on the rise in 1989 and 1990, he said, pointing out that it stood at 2.5 percent in 1990 and 2.3 percent in 1991.

He said that this year's unemployment rate would not be too large because the national economy is growing at a rapid pace. Taking China's capital of Beijing for example, he said, the unemployment rate is below 1 percent.

According to the Ministry of Labor, the total number of employees in China was 145.08 million by the end of 1991. Of this number, 73.5 percent were employed in the state-owned enterprises.

Asked whether the government is satisfied with the pace of reform, he said that the government has not set quotas for the reform nor does it care about the pace. These things are totally decided by enterprises themselves. The government provides assistance only.

He said that a survey conducted by trade unions last year showed that about 94 percent to 98 percent of the workers questioned were satisfied with the reform, the majority of them reporting that they had benefitted, especially by income increases.

However, he admitted, there are a few people who are dissatisfied with the reform because they did not work well in the past and lost out in the face of competition.

He said that all these problems will be solved within enterprises themselves, not by the government.

Nevertheless, he said, the Ministry of Labor and labor organizations at various levels should adopt measures to ensure full employment, and safeguard the interests of the broad masses of the workers.

## TRANSPORTATION

### Southern Airlines Transports More Passengers

OW2107141892 Beijing XINHUA in English  
1248 GMT 21 Jul 92

[Text] Guangzhou, July 21 (XINHUA)—China Southern Airlines carried 3.5 million passengers in the first six months of the year, a 36.7 percent increase on the same 1991 period.

The airline—the nation's biggest carrier—has put another seven aircraft into service after ordering 15 Boeing jets of various types to expand capacity, according to General Manager Yu Yanen.

Yu said the airline has opened 22 new domestic air routes this year and started or resumed two scheduled flights from China to Vietnam. New flight schedules have been introduced to Shenzhen, Wuhan and Zhengzhou.

With the help of a newly developed computer ticket booking system, the airline boosted seat occupancy to nearly 100 percent on major domestic routes and 90 percent on international and regional routes.

### Rail Freight Haulers Increase Cargo Tonnage

HK1507031992 Beijing CHINA DAILY in English  
15 Jul 92 p 1

[By staff reporter Xie Yicheng: "Rail Freight Haulers Beat Down Adversity"]

[Text] China's railways transported 760 million tons of cargo in the first half this year, outstripping the State plan by 29 million tons.

The achievement came "under extremely harsh conditions," according to officials from the Ministry of Railways.

Freight was especially heavy on trunk lines from Beijing to Shanghai and Guangzhou. Natural disasters frequently disturbed normal transport operations.

In June alone, serious floods swept through southern regions, and 15 major railways were cut 49 times for a total of 550 hours.

The Baoji-Chengdu line, an artery passing through China's northwest and southwest, has sustained damages from massive landslides over the last two months and suspended service for 17 days.

Emergency repairs were made under the direct command of Minister Li Senmao, and the line resumed traffic on Monday, a month ahead of schedule.

To assure that the national economy can advance smoothly, the ministry is striving to make this year's total freight volume top 1.5 billion tons. Particular attention is being paid to the transportation of coal from Shanxi Province under the State's unified plan.

In the first six months, the rail sector also ferried 488 million passengers, up 3.9 percent over the same period last year.

Long-distance passengers numbered 83 million, a marked increase of 10.4 percent over the first half last year.

As summer vacation is arriving, railway employees are mobilized to make free drinking water available on trains passing through the country's major 116 railway stations.

Passenger transport aims this year are focused on renovation of about 4,000 small railway stations and 700 pairs of local trains.

In a vow to "make a breakthrough" in both renovation and management, the ministry has set specific standards for service on local trains and at small stations and is dispatching three investigating missions.

The travelling public often complains about the outworn facilities and poor service quality in those areas.

With rapid economic development, China's railways as a whole exhibit an acute shortage of capacity.

A typical example is in Guangdong Province, famed not only for the fastest growth rate in the country but also for railway delays.

Early in May, 34 freight trains heading for Guangzhou and stretching several hundred kilometres were held up on the Hengyang-Guangzhou and Jiaozhou-Liuzhou lines.

Li Senmao disclosed on an earlier occasion that the rail system can only operate 75,000 freight wagons a day while the material departments need 105,000 wagons.

To accumulate more capital for railway construction and updating, the ministry has increased the freight charge for one ton-kilometre by one fen (0.185 cent) since 1 July.

### Port in Heilongjiang Begins Delivering Goods

*SK1307120292 Harbin Heilongjiang People's Radio Network in Mandarin 1000 GMT 11 Jul 92*

[Text] Jiayin port began delivering goods for the first time on 11 July. The goods with a total value of 2 million yuan, including 11 wheeled tractors and caterpillars, shipped from the Jewish Autonomous Oblast in Russia, arrived in Jiayin port on the morning of 11 July.

Jiayin port is the first-category port approved by the State Council in April 1989. Over the past three years, Jiayin County has formed 39 trade partners of the oblast and prefectural levels with the Russian side, and revenues from Russian trade, technical cooperation with Russia, and the export of labor service to Russia has increased from 225,000 Swiss francs in 1989 to 50 million Swiss francs at present. This year in particular, Jiayin County has invested some 11.6 million yuan in building the port commodity inspection office building, the commodity inspection hall, the highway to the port area, and communications facilities. These facilities will all be completed and made available to users by the end of this October. At the same time, the first-phase project of the 1,000-ton berth will be completed and put into operation in May of next year. After formal completion, Jiayin port will become a major window of Yichun City to develop trade and technical cooperation with Russia. Through the river-and-sea coordinated transport, this port will be highlighted to the Far East Area of Russia as well as Japan and South Korea.

### AGRICULTURE

#### Further on Grain Market Prices

*92CE0580A Beijing ZHONGGUO NONGCUN JINGJI [CHINA'S RURAL ECONOMY] in Chinese No 6, 20 Jun 92 pp 19-25*

[Article by Ke Bingsheng (2688 3521 3932), Beijing Agricultural University, College of Rural Economy: "Further on Grain Market Prices"]

[Text] My article "Price Signals in China's Grain Markets," which was published in ZHONGGUO NONGCUN JINGJI [CHINA'S RURAL ECONOMY] No 6, 1991, touched off some discussion. In No 11 of the same year, that magazine published an article by comrade Xia Yongxiang, who differed with the views and analytical methods that I presented. My article merely described existing conditions and expounded on a few interrelationships; it offered no judgment on China's current grain prices, nor did it advocate any particular policy or measure. My critic appears not have gotten this fact straight. My critic does not seem to understand some fundamental economic concepts, such as price flexibility. I shall now further discuss my views in this article regarding whether the current price system is rational, and what sort of price system would be a rational one.

## I. Determining a Standard for Raising Prices

What kinds of prices are rational? To be specific, how high must prices be for agricultural products or grain before they can be considered rational? This question is very prescriptive, and very easy to answer. In short, standards to determine price levels can be based on one of the following factors: costs, value, supply and demand, income, the ability of consumers to support a given price level, the ability of the government to provide fiscal subsidies, etc.

1. *A cost-based standard* Theoretically, prices for agricultural products should at least offset production costs. In actual practice, this is not a completely clear standard because these costs vary greatly between different regions. Costs can also vary greatly between different rural households, and some cost items, such as land rent and compensation for labor, are very difficult to calculate. However, although absolute costs cannot serve as a standard, their relative changes often constitute important reference data for price readjustments. For example, when chemical fertilizers and agricultural chemicals undergo large price swings, people use such price swings as a basis for demanding higher procurement prices for agricultural products.

In addition, the cost-based standard can be expanded into one based on opportunity costs. When there is surplus labor, the opportunity cost of land has an important effect: If you want peasants to show the same level of enthusiasm for planting grain as for planting cotton, you must assure that peasants are able to achieve the same amount of net income per unit of land for both crops. When there is surplus land but insufficient labor, you must assure that both production activities yield about the same amount of net income per day of labor.

2. *A value-based standard* Prices for agricultural products should reflect the necessary social labor expended in the production of the product. This standard for determining prices is based on Marxist political and economic principles. Disagreements over this standard stem from the fact that the term "necessary social labor" has two different implied meanings. According to the first interpretation, the term only takes into account factors in the production link, and the term is thus synonymous with the concept of average social costs (including all materialized labor and live labor). If one goes by the second interpretation and measures costs by the degree of recognition by society, then the term becomes synonymous with the standard based on supply and demand.

3. *A standard based on supply and demand* (market equilibrium standard) A rational price for agricultural products should be one which brings supply and demand into equilibrium, i.e.—it seeks an equilibrium price. The equilibrium price is the comprehensive expression of the production costs of the producers together with the desire and purchasing power of consumers. In using this type of standard, one must be precise about the period of time which serves as one's frame of reference. Is it

immediate equilibrium at a particular moment in time, or is it an equilibrium price as defined over a long period of time? Within a long time frame, the immediate equilibrium price fluctuates up and down around the long term equilibrium price level.

In using this standard, one must make a further clarification: Is the domestic equilibrium price made the standard, or is the world market equilibrium price made the standard? The two are frequently not the same.

4. *An income-based standard* Prices for agricultural products should rise to the point where the income of peasants involved in agricultural production will be roughly equal to that of nonagricultural producers. In the European Community and other developed nations, it is precisely upon the basis of income standards that prices for agricultural products have been raised and kept above the level of long term equilibrium prices (and world market prices). From the standpoint of feasibility, such standards can only be broadly adopted by industrial and wealthy countries (with an agricultural population of less than 10 percent and an Unger coefficient of less than 30 percent).

5. *A standard based on the ability of consumers to support a given price level* Prices for agricultural products should not exceed the ability of consumers to pay for them. This standard is one for which the boundaries are also very difficult to determine. There is a psychological ability to pay as well as an actual ability to pay. Agricultural products are among the necessities of life. Their prices should be low enough to enable consumers to buy them and satisfy their most basic physical and survival needs. Economists can limit their considerations to this type of economic ability to pay for agricultural products, but politicians must, in addition, take into account psychological ability to pay.

6. *A standard based on the ability of the state to provide fiscal subsidies* To soften the conflict of interest between producers and consumers with respect to prices, the state can use subsidies to readjust price levels or the discrepancy between producer prices and consumer prices. In readjusting prices, the state is inevitably subject to the limitations of its fiscal resources.

Many people in China use the idea of "a scissors price differential" as a standard for determining what prices should be. This, in essence, is an income-based standard. It would be far simpler and clearer to determine prices upon the basis of an income-based standard than by thinking in terms of a scissors price differential.

During discussions in China regarding prices for agricultural products or grain, the standards used (whether explicitly or implicitly) have varied greatly.

## II. A Comparison of China's Policy Grain Prices and Market Grain Prices

At this point I shall introduce the new concept of "policy prices," which includes all the prices set by government

agencies upon the basis of various standards or to meet various necessities. Neither are such prices formed spontaneously via market competition, nor do they rise and fall freely in response to changes in supply and demand. In countries with planned economies, policy prices manifest themselves as planned prices, as for China's fixed price for grain and prices for rationed grain sold to urban

residents. Some prices in countries with market economies, such as support prices, can also be categorized as policy prices.

Table 1 shows the relationship between policy prices and market prices for wheat, one of China's main edible grains.

Year	policy prices <sup>1</sup>		domestic market prices <sup>2</sup>	international market prices <sup>3</sup>		
	procurement price	marketing price		\$	exchange rate	price in RMB
1966	27.80	27.80	55.20			
1978	27.80	27.80	55.16			
1979	35.50	29.40	55.16	19.97		
1980	35.50	29.40	55.33	21.85		
1981	35.50	29.40	54.77	19.36	1.70	32.96
1982	35.50	29.40	54.42	17.85	1.89	33.73
1983	35.50	29.40	52.00	18.64	1.98	36.91
1984	35.50	29.40	48.23	17.57	2.33	40.94
1985.8	48.80	29.40	46.63	16.67	2.94	49.00
1986	48.80	29.40	51.67	13.54	3.45	46.71
1987	48.80	29.40	57.59	14.33	3.72	53.31
1988	52.00	29.40	70.48	18.90	3.72	70.31
1989	55.00	29.50	97.87	17.88	3.76	67.21
1990	55.00	29.50	89.63	14.10	4.72	66.55
1991.5	55.00	44.40	82.47	12.40	5.37	66.59
1992.4	66.40	66.40				

Notes: 1. Shijiazhuang City, grade 3 white wheat; price through July 1985 was for unified procurement, after August 1985 it was for fixed price. Data provided by Shijiazhuang City Edible Grains Bureau. 2. National average. Data provided by Ministry of Commerce, Corporation for Negotiated Sales and Marketing of Grain. 3. Cost, insurance, and freight for hard wheat in Rotterdam. Data collected from issues 15 and 71 of "World Agricultural Information," published by the Ministry of Agriculture, Information Center. Official exchange rate.

The table indicates that from 1979 through 1991, planned marketing prices were significantly lower than planned procurement prices. The difference is made up for by government subsidies. This inversion of marketing and procurement prices began in 1979, when primary importance was attached to a standard based on production costs (excessively low procurement prices) and a standard based on the ability of consumers to support a given price level (inability to raise consumer prices). Beginning in April 1992, planned marketing and procurement prices were brought even once again at a new level. Conditions had changed greatly. The capacity of state fiscal resources to support subsidies and the issue of peasant income had become big problems, so people began to attach greater importance to a standard based on the ability of the government to shoulder fiscal burdens, and to a standard based upon income.

The ability of consumers to support a given price is no longer a factor. The percentage of household income spent on grain is the indicator by which to measure the importance of the ability of consumers to support a given price level. Prior to the 1970s, this figure stood above 20 percent for China's urban households, but by 1990 it was only 5 percent. It has risen somewhat with the two price hikes which have occurred in the last two years, but even if we

base calculations upon market prices, urban households only spend about 8 or 9 percent of income on grain.

The psychological ability of consumers to support a given price level is highly variable. In reality, a close analysis reveals that China's consumers no longer worry about the price of grain, but about the quantity. Some people always fail to differentiate between these two aspects.

It can also be seen in table 1 that apart from 1985, planned procurement prices have always been lower than market prices. In most years, the gap has been large. For this reason, if we were to base the standard upon a domestic equilibrium price, the planned procurement price would clearly be too low. The gap between planned and market prices is generally considered an "undeclared tax" upon peasants. It could also be considered a subsidy extended by producers to consumers.

### III. A Comparison Between China's Grain Prices and World Market Prices

As China's economy is further reformed and opened up, prices for agricultural products in China are becoming ever more closely linked to the international market, so

it is no longer sufficient to think only in terms of the domestic market. Taking the international market into account is no longer an academic issue, but has real significance.

It is apparent from table 1 that wheat prices in China's domestic market are significantly higher than world market prices. In 1991, the price of wheat on China's domestic market was 24 percent higher than the world market price when calculated on the basis of the official exchange rate. Even if calculations are based upon the unofficial foreign exchange rate (the market exchange rate, which is roughly 5.80 RMB to \$1), prices in China are still 15 percent higher. This is before taking into account such factors as differences in quality. The domestic market price listed in table 1 is a composite average of market prices in provinces and regions throughout China. If we focus on coastal provinces and municipalities, the gap between domestic market prices and international market prices is even greater. For example, the average price of wheat in 1991 was 89.05 yuan per 100 kg in Beijing, 84.91 yuan per 100 kg in Tianjin, 86.30 yuan per 100 kg in Shandong, and 85.20 yuan per 100 kg Fujian. With the price readjustment of April 1992, planned procurement prices (state-set price) and planned marketing prices are now roughly on a par with the 1991 international market prices (slightly lower than current international market prices).

This description allows us to reach the following conclusion: The policy price for China's wheat is about the same as the world market price, and the free market price in China is significantly higher than the world market price.

Of course, we must also be aware that the world market is not an absolutely rational standard of reference, because wheat export subsidies by various countries have somewhat distorted the world market price. Without these subsidies, the world market price for wheat would be higher. At the same time, though, we must also note that if, at the same time that these subsidies were abolished, these countries also relaxed measures to limit production, world market prices would be subject to further downward pressure.

#### IV. A Comparison of Prices for Grain and Other Products

**1. A Comparison With Prices for Inputs** It is difficult, in terms of absolute price levels, to make a direct comparison between prices for grain and its inputs. It is more meaningful to compare the prices and production costs for grain. Viewed from a static perspective, China's grain prices are higher than production costs. However, in terms of relative movement, this relationship varies from one period to the next. The data in table 2 show that average grain prices in the 1978-85 and 1985-90 periods rose more than did prices for industrial products used in agricultural production. However, if state procurement prices and market prices are examined separately, one discovers that these two types of prices have undergone very different patterns of change. During the 1978-85 period, increases in planned state procurement prices were relatively large, exceeding those for industrial products used in agricultural production, while market prices not only failed to rise, but actually fell somewhat. During the 1985-90 period, increases in planned state procurement prices were significantly smaller than those for industrial products used in agricultural production, while market prices rose sharply (three times as much as prices for industrial products used in agricultural production).

Since the mid-1980s, peasants have complained that prices for capital goods have risen too high while grain prices have changed little. The main reason for this is that peasants have used planned prices, and not average prices or market prices, as the measuring stick.

**2. A Comparison Between Grain Prices and Prices for Grain-Fed Livestock** The price relationship between grain and grain-fed livestock is expressed by a technical coefficient. People often compare the prices of pigs and grain. Within a commodity economy, feed accounts for about 70 percent of the production costs for live pigs, so a basically rational relationship exists between the prices for pigs and grain used for feed. In general, the ratio between the prices for live pigs and feed grain (usually corn) is 6:1, and about 10:1 when dealing with slaughtered pigs. Since the mid-1980s, live pigs have traded at free market prices in China. Calculated in these terms, the ratio between prices for pigs and grain has been roughly the same as mentioned above. However, we calculate upon the basis of planned grain prices, then this ratio is significantly higher.

Table 2. A Comparison Between Prices for Grain and Its Inputs

	price index (1978 = 100)			average annual rate of increase (%)	
	1978	1985	1990	1978-85	1985-90
prices for industrial prices used for agricultural production	100.0	123.6	195.0	3.1	9.5
average grain procurement price	100.0	158.0	271.8	6.8	11.5
wheat: market price	100.0	84.5	192.2	-2.4	17.9
wheat: planned procurement price	100.0	137.5	154.9	4.5	2.4
corn: market price	100.0	87.3	194.5	-1.9	17.4
corn: planned procurement price	100.0	131.7	148.0	4.0	2.4

Source: China Statistical Yearbook, 1991; Shijiazhuang City, Edible Grains Bureau

**3. A Comparison With the Price of Other Products Competing for the Same Resources** China's arable land is limited. There is strong competition between grain and other crops for land resources. About 75 percent of all crop land in China is planted with grain. Cotton occupies more arable land (about 3.5 percent) than any other nongrain crop. This figure is higher in important cotton-producing areas, such as Shandong (about 13 percent), Hebei (about 10 percent), and Henan (about 7 percent). The opportunity cost of grain production in such regions is thus the income that could have been derived from planting cotton, so people often speak of the relative price of cotton when judging whether the price of grain is high or low.

Theoretically speaking, the relative price of grain and cotton is rational if the amount of net profit generated per unit of land area is roughly equal for either crop. When the marginal opportunity cost of labor is not zero, the opportunity cost of labor must also be factored in. The amount of net income (or profit) that can be

generated per unit of land area is determined by a number of factors, including annual output, prices, the quantity and price of material inputs, the amount of labor required, and opportunity costs. It has been traditionally felt in China that the rational price ratio between cotton and grain (wheat) is 8:1. This can only be true in relation to conditions at a particular time. When the conditions of production change, the rational price ratio also changes. For example, in some cotton-producing regions, the former planting system called for either a single cotton crop per year or a planting of both corn and wheat, but now there is a new system in which wheat and cotton are planted in alternating belts so that there is one wheat crop and one cotton crop every year. Some people say that the rational price ratio of cotton-to-wheat should therefore be lower now.

In addition, in discussing the cotton-to-wheat price ratio, people generally use average prices. The question of whether average prices, free market prices, or state-set prices are the appropriate standard merits further discussion. As indicated in table 3, price ratios vary greatly depending upon which standard is used.

**Table 3. A Comparison Between Prices for Cotton and Grain in China**

Year	price (yuan per ton)				cotton-to-grain price ratio, grain = 1.0		
	wheat		average grain price	average cotton price	cotton-to-wheat price ratio		
	free market	state-set			free market grain price	state-set grain price	cotton-to-grain price ratio based on average grain price
1980	553	355	361	3174	5.7	8.9	8.8
1985	466	488	416	3218	6.9	6.6	7.7
1989	979	550	750	4951	5.1	9.0	6.6
1990	896	550	716	6341	7.1	11.5	8.9
1991	825	550					
1992		664					

Note: Grain prices are annual averages; cotton prices are average procurement prices. Source: Same as table 2.

#### **V. A Comparison of Income From Grain Planting Versus Income From Nonagricultural Industry**

In all discussions in China on grain and agricultural prices, the most confusing aspect is always the issue of relative benefit. Under current circumstances in China, the relative benefit of grain production (and of agricultural production in general) is rather low. This is primarily a reflection of the fact that the income of grain (agricultural) producers is lower than that of nonagricultural producers. In other words, judging on the basis of an income standard, China's grain prices are too low, so the question to be answered now is: Can we effectively resolve the relative benefit problem by raising prices?

There is no doubt that raising state-set prices can raise peasant incomes, but this increase would be very limited. About 12 percent of total grain production is sold at state-set prices, and the average increase in state-set prices in 1992 was 15 to 20 percent, which translates to

roughly a 2 percent rise in the total income of peasants, and roughly a 3 percent increase in net income from grain production.<sup>1</sup> Because net income from grain production accounts for about one-third of net peasant income,<sup>2</sup> the most recent increase in state-set prices only resulted in about a 1 percent rise in net peasant income. Of course, this is only the average; the effect would be greater in regions which concentrate on grain production. Nevertheless, the effect upon income will not exceed 2 to 3 percent whatever the situation. State-set prices in China are now about 20 to 25 percent below domestic market prices, which shows that even if state-set prices were raised to the level of market prices, it would only increase net peasant income by 1 to 3 percent.

This also means that even if "the market were completely deregulated" and peasants were paid market prices, there would be no fundamental improvement in the income of China's grain producers. In other words,

even if 100 percent of the products were sold on the market, it would still not result in a good solution to the problem of low "relative benefit" for grain production at domestic market prices. The problem would be even further from resolution if grain were sold at international market prices.

So can we use support prices to raise grain prices to the level of market equilibrium prices, thereby making the relative benefits of grain production equal to those of nonagricultural production? This depends on the state's fiscal resources, or to be more precise, it depends on employment structure. In the final analysis, the state's fiscal revenues come either from agricultural or nonagricultural production. Only subsidies which come from nonagricultural sectors can truly be agricultural subsidies. Such subsidies are, in reality, subsidies extended to agricultural laborers by those employed in nonagricultural sectors. In developed countries, the ratio of agricultural to nonagricultural employment is about 1:20, while in China it is 2:1. Clearly, it is much more difficult for one person to subsidize two, than for 20 persons to subsidize one. Furthermore, even in developed countries this subsidy is a heavy burden. The high subsidies of the industrial powers of Europe and the United States only bring farmer incomes to about two-thirds the average level for industrial workers.

Raising prices will help somewhat to resolve the problem of low relative benefit for grain production and agricultural production in general, but it is not a fundamental fix, because the basic cause of the problem is the fact that China's grain production is still highly self-sufficient and small scale. The scale of production is too small, and far too low a percentage of output is sold as a product. If we are to fundamentally resolve the problem of low relative benefits, the key is to expand the percentage of output sold as product and to increase the scale of production. From an analysis of changes in peasant incomes in recent years, and of income differentials between various regions, it is apparent that issues related to structural transformation are the decisive factors limiting peasant incomes. The transfer of labor and population toward nonagricultural industries not only raises the income of these people, but it also results in higher income for those who remain in agricultural production.<sup>1</sup>

If we wish to be relatively successful in achieving even levels of "relative benefit," merely achieving a free flow of goods is far from enough; the factors of production must also flow freely. These factors include land use rights, labor, and even population. This is the fundamental prerequisite for structural transformation.

## VI. Conclusion and Discussion

It is apparent from the preceding analysis that there are multiple standards for judging whether prices for grain or other agricultural products are too high or low. Depending on the standard used, a given price may seem either too high or too low.

Because natural and technological factors undergo different changes, there is no hard and fast answer to the question of what represents a rational price ratio between grain and other related products. This is all the more true in China's complex price system. Rather than mechanically applying methods from the past or from other countries and places, we should make concrete analyses on a case-by-case basis.

Compared with domestic market prices, China's current state-set prices are still too low. Although these prices should be raised, it is unrealistic to expect that price policies can significantly improve peasant incomes.

I believe that for the sake of long-term economic development and efficiency, we should take long-term market equilibrium prices as the standard for rational prices. Within the context of a free flow of products and labor, the interaction of supply and demand should guide price formation and various price ratios. This is not to say there is no place for government intervention. The government should husband its resources to carry out macroeconomic, long-term regulation and control. Government intervention should focus on maintaining fair market competition, increasing market transparency, improving the sales infrastructure of markets. Particular stress should be placed on damping market fluctuations. Because it is impossible to dampen international market fluctuations, it is still necessary that the government, to maintain market stability, take certain measures to prevent the international market from having too great an effect upon the domestic market. However, from the perspective of the mutual benefit of international trade, these measures must be used only to the extent that they do not result in excessive discrepancies between domestic market prices and long-term equilibrium prices on the world market.

## Loss of Cultivated Area Under Control

92CE0513A Beijing ZHONGGUO TONGJI XINXI  
BAO in Chinese 21 May 92 p 1

[Article by Han Xisheng: "Massive Reduction of Cultivated Land Basically Under Control"]

[Text] According to statistics of all localities in China, at the end of 1991 China's cultivated area was 1.435 million mu, a net loss of 290,000 mu from 1990; and of the last 10 years, a year of less reduction of arable land. Provinces with added cultivated area increased from 10 in 1990 to 11, of these Inner Mongolia, Xinjiang, Helongjiang and Guangxi had increases of 580,000 mu, 440,000 mu, 320,000 mu and 250,000 mu respectively. Provinces with reduced cultivated area were Shandong, Hubei and Sichuan with reductions of 280,000 mu, 280,000 mu and 270,000 mu respectively. Reports from all localities indicated that the trend of large reductions in cultivated area was basically controlled, paddy and irrigated fields continued to increase, and paid land transfers gradually expanded. But conflicts between the

population and land became more acute, and legal management of the cultivated land needs to be strengthened.

Use, development, and management of cultivated area last year displayed the following characteristics:

—Paddy and irrigated fields increased, dry fields decreased, and the efficiency of using cultivated land was enhanced. In 1991, paddy and irrigated fields amounted to 725 million mu, an increase of 9,920,000 mu or 1.4 percent over 1990. The dry field area was 710 million mu, a decline of 10,210,000 mu or 1.4 percent from 1990. This meant, in terms of grain, an annual increase of 7,000,000 tons, and more than 4 billion yuan income for peasants; in terms of cotton, this meant an annual increase of approximately 1,500,000 tons, and more than 9 billion yuan income for peasants; clearly, economic efficiency increased. In terms of the whole country, seven provinces had an increase of more than 500,000 mu of paddy and irrigated fields; of these Anhui, Helongjiang, Hebei, Henan, Jilin increased 1,990,000 mu, 1,410,000 mu, 1,210,000 mu, 1,070,000 mu and 620,000 mu respectively, and reduced dry fields by 930,000 mu, 800,000 mu, 210,000 mu, 630,000 mu and 240,000 mu respectively.

—Reclaimed wasteland declined, but wasteland reclaimed by state farms increased. China's newly reclaimed wasteland was 4,150,000 mu, 190,000 mu less than 1990, but wasteland reclaimed by state farms increased to 824,000 mu, an increase of 1,190,000 mu or 16.9 percent over 1990; of these state farms in Xinjiang, Helongjiang and Inner Mongolia reclaimed the most, with the total of 6,840,000 mu or 83 percent of the total wasteland reclaimed by state farms nationwide, and 16 percent of the newly added cultivated land in China.

—Paid land transfers expanded, which accumulated funds for developing cultivated land resources. Paid land transfer is a primary item in the reform of land use, and in some places, special land price evaluation committees were set up to oversee reasonable paid land transfers. According to incomplete statistics from Guangdong, Fujian, Shanghai and 17 other provinces and cities in 1991, paid state land transfers accounted for 380,000 mu, for a total of 2.47 billion yuan. At present, 26 provinces have launched pilot projects of paid rural residential land use, and Yunnan has already expanded the project throughout the province. Across China, among more than 100 enterprises run by villages and towns, pilot projects of paid arable land occupancy have been launched. By using economic methods to manage land, China has effectively controlled unplanned occupancy of cultivated land, reduced land disputes, accumulated funds for developing arable land resources, and made encouraging progress in improving the protracted situation of severe separation of land ownership from the right of use and the right of management.

According to investigations by departments concerned, the occupancy and management of arable land at present has some problems that cannot be neglected. First, the conflict between the population and land is more acute. In 1991, per capita cultivated area was only 1.25 mu, 0.2 mu less than 1990. Although the gross increase and decrease of cultivated land is basically balanced, as the population increases, per capita arable land tends to decrease unremittingly, and the potential crisis grows ever more acute. Second, occupancy of cultivated land for national capital constructions continues to increase. As the economy improves, construction projects in all localities increase. In 1991, the occupancy of cultivated land for national capital construction reached 1,080,000 mu, an increase of 80,000 mu or 8.5 percent over 1990. Third, unplanned occupancy of cultivated land occasionally occurs. According to the preliminary figures from 24 provinces, illegal occupancy of land was 300,000 mu, 45 percent of which was taken by government departments and units. This made the extra-budgetary occupancy of arable land increase enormously. During the Seventh Five-Year Plan, the extra-budgetary occupancy of cultivated land in Jiangsu Province alone accounted for 47.2 percent of the actual reduction of arable land in the province. The department concerned appealed that cultivated land is China's most precious resource, and is the basic physical condition to maintain the steady and harmonious development for China's agriculture. We must establish the understanding that to protect arable land is China's cardinal national policy, and we must take effective measures to enforce the legal management of cultivated land, and do our best to maintain China's present level of per capita arable land.

### Shandong Peasants' Income Gap Analyzed

92CE0536B Beijing ZHONGGUO TONGJI XINXI  
BAO in Chinese 4 Jun 92 p 2

[Article by Rural Sample Survey Team of Shandong Province: "Causes and Evaluation of Shandong Peasants' Income Gap"]

[Text] After a decade of rural reform, most peasants in Shandong have enough to eat and wear, and are now advancing toward a relatively well-off standard of living. Even as peasants' earnings climb steadily, however, the income gap has been widening. Studies show that in 1991 per capita income exceeded 1,200 yuan in 12.67 percent of all peasant households in Shandong, making them rich households, and ranged between 390 yuan and 1,200 yuan in 77.78 percent of the households. Peasants in the latter group had enough to eat and wear. In 9.55 percent of the households, per capita income fell below 390 yuan; these peasants lived in poverty. The per capita income gap between poor households and rich households was 1,260 yuan, while the gap between per capita living expenses was 651 yuan. Just as wide are regional disparities. In 1991, per capita net income among peasants reached 1,071.11 yuan in the four prefectures and municipalities of Yantai, Weihai, Qingdao, and Zibo, while living expenses were 838.91 yuan. In contrast, per

capita net income among peasants in the four prefectures of Heze, Liaocheng, Dezhou, and Huimin was 624.1 yuan and per capita living expenses were 524.61 yuan, 447 yuan and 314 yuan, respectively, lower than the corresponding figures in the four prefectures and municipalities in the east.

The peasants' income gap is caused by a variety of factors, specifically the following:

#### Households Differ in Size and Labor Conditions

Household size and labor conditions are the most important factors contributing to the widening of the peasants' income gap. Generally speaking, the skills, educational standard, and level of operation and management of a worker are directly proportional to his level of earnings, while the size of a peasant household and its labor burden coefficient are inversely proportional to its level of earnings. Poor households are large in size while rich households are small. In 1991, the average size of a poor rural household in Shandong was 4.63 people, compared to 3.73 people per rich household. In terms of the distribution of manpower, poor households have little manpower despite their large size. Rich households, on the other hand, have considerable manpower despite their small size. In 1991 the labor burden coefficients of poor and rich households were 1.78 and 1.37, respectively. The quantity of manpower plays a key part in determining the peasants' level of net earnings. Turning to the quality of manpower, workers in a poor household are undereducated, have little scientific knowledge, and lack production skills, not to mention an aptitude for breaking new ground. On the other hand, workers from a rich household have a higher educational standard, take science and technology seriously, possess formidable production and operational abilities, and are competitive on a complex and ever-changing market. As a result, they are able to multiply their sources of income and increase their earnings rapidly. Of every 100 workers from poor households today, 19.54 are either illiterate or semi-illiterate, 2.49 times the corresponding figure for rich households; 35.34 people have an elementary education, 1.07 times; another 35.34 have a junior high education, 18.5 percent less than that for rich households; and 9.77 people have a senior high education and above, 38.33 percent lower.

#### Different Occupational Characteristics

The lack of diversity in production is the principal characteristic of the occupations of poor households. Constrained by limited human, material, and financial resources, most poor households engage exclusively in agricultural production, especially the cultivation of grain and other crops. In 1991, per capita net agricultural income among poor households was 243.6 yuan, 86.15 percent of a household's net incomes. Furthermore, of its total income from agriculture, almost 50 percent came from grain cultivation. Workers in rich households, in contrast, are characterized by occupational diversity. In rich households, per capita income derived from the

secondary and tertiary industries amounted to 230.65 yuan in 1991, 7.13 times that of poor households. Agricultural income accounted for 58.96 percent of a rich household's income, 27.19 percentage points lower than in the case of a poor household.

#### Level of Development of Collective Economy Varies

Today collective unified operations have become the principal source of income for peasants who want to get rich. Among rich households in 1991, per capita earnings from collective unified operations were 394.07 yuan, 25.13 percent of per capita net income. Among poor households, per capita earnings from collective unified operations were only 11.81 yuan, less than one-thirtieth of that of rich households. The collective economy is the backbone of diversified operations in peasant households. By offering socialized services and in other ways, it solves those households' pre-, mid- and post-production problems and furthers the continuous development of their economy. Because the role of the collective economy was overlooked in the past, many areas have a weak collective economy. In some places the collective economy is nothing more than an "empty shell." This is an important reason why some rural households remain poor after so many years.

#### Economic Base and Production Conditions Vary

Regions and peasant households vary in their economic base and conditions of production. Peasants also differ in the magnitude of their wealth. In Shandong, the Jiadong region has a solid economic base and boasts a large number of rich peasants. In the four prefectures and municipalities of Yantai, Weihai, Qingdao, and Zibo, a high 34.95 percent of all peasant households were rich in 1991, while poor households made up just 2.11 percent. In contrast, the northwestern part of the province has a weaker economic base characterized by a late start in building township enterprises, which thus have a fragile foundation. In the four prefectures of Heze, Liaocheng, Dezhou, and Huimin, poor peasant households accounted for 14 percent of all peasant households, while rich households were only 3.29 percent. Rich peasant households have ample funds to meet the needs of expanded reproduction. Among rich households, per capita production-related spending amounted to 447.67 yuan in 1991 and per-household production-related fixed assets 1,448.02 yuan. On average every 100 rich households owned 3.38 cars, 88.16 tractors, and 40.04 power threshers. Some rich households have essentially mechanized or semi-mechanized their agricultural operations. In the case of poor households, they have to spend close to half of their entire earnings as living expenses. Few of them can afford large pieces of agricultural machinery and other capital goods. As for households which are particularly poor, they cannot even be sure of eking out a living, let alone carry out expanded reproduction. Among poor households, per capita production-related spending was 244.79 yuan in 1991, only half of what their rich counterparts spent on production; year-end per-household fixed assets amounted to

1,151.52 yuan, 20.47 percent less than rich households. On average every 100 poor households owned 40.15 tractors and 24.94 power threshers, 54.46 percent and 37.71 percent, respectively, less than rich households. Of all means of production, the only one in which poor households had a higher rate of ownership was draught animals, 48.68 heads per 100 households, 1.7 times that of the rate of ownership for rich households. This shows that agricultural production among poor households so far is still languishing at the stage of animal and human labor.

The investment gap between the poor and the rich manifests itself not only in the scale of investment, but also as a contrast between short-term behavior on the part of poor households and the pursuit of long-term interests by their rich counterparts. The latter are in a position to use funds effectively, emphasize scientific and technical inputs and technical training, and take pains to acquire scientific knowledge. Poor households cannot afford to do this. In 1991, rich households spent 8.15 yuan per capita on a range of technical training, while poor households spent only 0.74 yuan per capita.

When the quality of the labor force, its occupational activities, and production investment are different, economic results will inevitably vary as well. In 1991, rich households harvested 357.15 kilograms of grain and 67.87 kilograms of cotton per mu and earned 395.21 yuan in net profit per comprehensive mu, 22.93 percent, 42.58 percent, and 114 percent, respectively, higher than corresponding figures for poor households. Among rich households, the return on every 100 yuan worth of fixed assets was 263.71 yuan, 2.32 times higher than poor households, while the return on every 100 yuan in production investment was 228.49 yuan, 1.98 times higher.

#### Evaluating the Peasants' Income Gap

The income gap between the rich and the poor has become a subject of widespread social concern. After analyzing the growth of peasants' incomes in Shandong in the last decade and more, we can make the following basic judgments:

1. The current trend in the growth of the income gap will not lead to a bipolarization. After the introduction of the production responsibility system, the earnings of Shandong peasants have generally increased substantially, with the vast majority of them having achieved subsistence and are now moving toward a relatively well-off standard of living. The poor households of today are poor only relative to those who have achieved subsistence and those who have gotten rich. Absolutely speaking, they are all better off to various extents than in the past. After adjusting for price increases, per capita net income among poor households rose 79.77 percent between 1980 and 1991 and living expenses climbed 200 percent.

The widening gap in peasants' income is the result of the different paces at which incomes have been rising. It has to do with some people getting rich first and some getting rich later. It will not cause bipolarization in the near future.

2. Although the income gap has been widening, it still remains quite fair and reasonable. Internationally the Gini coefficient is commonly used to measure the equitableness of income distribution; the higher the coefficient, the less equitable the distribution. According to pertinent UN organizations, a Gini coefficient anywhere between 0.2 and 0.6 indicates a relatively equitable distribution. The Gini coefficient of per capita net income among Shandong peasants was 0.2011 in 1980 and climbed to 0.2725 in 1990 before receding to 0.253 in 1991.

3. It is clearly harmful to let the income gap continue to widen limitlessly. But bearing in mind the characteristics of the economy in its particular stage of development, a reasonable gap has its positive side. An income gap may fuel the enthusiasm of the broad masses of peasants to produce, which will help stimulate the development of the overall rural economy. Also, peasants who are the first to get rich set an example for their poorer counterparts in exploring new approaches to enrichment, thereby spurring the latter to shake off poverty and become well off.

To achieve the ultimate goal of making everybody rich, we must encourage some people to become rich first and protect their rights and interests with the right policies, on the one hand, and adopt a number of proper economic measures to regulate income distribution between peasant households when the gap becomes excessive, on the other.

#### Anhui Province Suffers Severe Drought

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1023 GMT 6 Aug 92

[Text] Hefei, August 6 (XINHUA)—Shortage of drinking water is threatening some 800,000 residents and 200,000 head of domestic animals in east China's Anhui Province which has been hit by a drought since the middle of last month.

The province, which suffered serious floods last year, has been stricken three times by drought since the inset of summer this year. So far the hot and dry weather since July has affected some 37 million mu (2.46 million ha [hectare]) of farmland in the province.

Presently 3.3 million locals, 476,000 machines and 290,000 diesel engines are mobilized to fight the drought. They have pumped 3.4 billion cu m [cubic meters] of water to irrigate 10 million mu of farmland.

### On Entertaining Guests at Public Expense

92CM0366A Shanghai SHEHUI [SOCIETY]  
in Chinese No 88, 20 May 92 pp 32-36

[Article by Zheng Youyi (6774 2589 5030): "Analysis of Food and Drink Culture at Public Expense"]

[Excerpts] [passage omitted] No country in the world has admonished its officials so earnestly as Chinese leaders on the proper way of entertaining guests. Nor has any government issued specific rules so frequently as the Chinese government as to the quantity and variety of food and drink used for entertainment. But "dining and wining at public expense" has continued despite repeated efforts to ban such practice.

This appears to be a strange but common phenomenon. It is of practical significance to study this phenomenon seriously from different angles.

#### 1. Absurd Manifestations of Dining and Wining With "Public-Expense Characteristic"

A nation with ancient civilization, the Chinese are very proud of the spectacular culture they have created. One aspect of this culture is the "food and drink culture." [passage omitted]

Statistics show that in the Western world a person's lifetime contains 20 years of sleep, six years of eating, three years of telephone conversations, and five years of TV viewing, but the Chinese spend at least 12 years at the dining table, enjoying their unique "food culture."

The Chinese "drink culture" has even more distinctive characteristics. The customs of "drink" are multifarious and colorful. [passage omitted]

When our "food culture" and "drink culture" with distinctive national characteristics are coupled with "public expense," that is, when the unique traditional national features are transformed into a "public-expense characteristic," there is an immediate change in nature. "Culture" is gone; only food and drink remain.

An estimate by the State Statistical Bureau indicates that 60 to 70 percent of the business of big and medium hotels and inns across the country is attributable to banquets at public expense. According to the most conservative calculations, China spends 80 billion yuan of public funds on banquets each year. This amount is sufficient to build 40 automobile plants of the same size as China's No. 1 Motor Vehicle Works or paying the nation's educational expense for three years.

There are many means and ways of "dining and wining at public expense." In general, they can be classified as follows:

One, "meetings" accompanied by extravagant banquets

The number of meetings and money spent for dining and wining are amazing. Despite repeated efforts to ban large numbers of unnecessary documents and meetings, there

are still countless meetings such as experience-exchange meetings, on-the-spot meetings, cooperative meetings, commendation meeting, study and discussion meetings, and report meetings, and the need for meetings seems to remain forever. The meetings are accompanied by banquets, and almost every banquet has foods and drinks beyond the established standards.

#### Two, extortionate "inspections"

At the end of the year, representatives from various trade organizations, sectors, departments, large inspection groups, work-examination groups, and performance-evaluation groups of one kind or another vie to come to grassroots units, including enterprises and government offices, villages and towns. Of course, most of them are genuine "inspection groups" and "working groups," but some are certainly "eating and drinking groups." As the members of these groups are not only high-level cadres but also empowered to select the advanced, criticize the backward, and give promotion, the units being inspected have to make every effort to entertain them.

#### Three, "celebrations" joined by all

Occasions such as ribbon-cutting, inauguration of business, prize-awarding, anniversaries, festivals, promotions, performance evaluation, and move of offices can all be used as pretexts for holding banquets. Extravagant banquets are, therefore, held to show "warm celebrations." Someone has written a couplet to describe this: "Factory, workshop, cooperative, store, and school celebrations—there are celebrations everywhere; 30th, 20th, fifth, second, and first anniversaries—every year is the time for banquets." The horizontal line reads: "Universal celebrations."

#### Four, "exchange of banquets" in a reciprocal way

Due to the formation of lateral ties, there are frequent contacts between the units concerned, including fraternal, neighboring, and cooperative units. I give you a party today, and he asks me to dinner tomorrow. Bosom friends within the four seas are like close neighbors even though they are far apart. Banquets are exchanged on a wide scale. In the "exchange of banquets," emphasis is placed on reciprocity, high standards of foods and drinks, and equivalent ranks of those attending the banquets.

#### Five, "the geometric figure of dining and wining"—pyramid

Odd as it looks, this is the figure depicting the normal phenomenon of dining and wining. In the course of an investigation, many people pointed out: "The more banquets are held, the more luxurious the food becomes." "The poorer the host, the more luxurious the banquet." The manner in which people indulge in dining and wining is just like a "pyramid."

The poorer they are, the more they want to show extravagance, and the more "luxurious" their dining and wining. The more they indulge in dining and wining,

they poorer they become. The poorer they are, the more they indulge in dining and wining. This phenomenon has become a vicious cycle. People use every occasion as an excuse for dining and wining whether they are out on business trips, making visits and sightseeing tours, receiving guests, holding meetings, or celebrating festivals. [passage omitted]

## 2. "Theories" on "Dining and Wining at Public Expense"

[passage omitted] A. "Dining and wining creates advantages."

"Dining and wining creates advantages, and nothing can be accomplished without a banquet." "Dining works wonders, and nothing can be done without it." People believe that dining and wining strengthens friendship and creates extra advantages. At the dining table, things that are normally impossible may be accomplished, and requests that violate the policy may be granted. "Advantages" are thus created by dining and wining.

Guided by the theory that "dining and wining creates advantages," some people spend public money like water in holding banquets, and feel that they are justified doing so. At the time of selection of "good" enterprises, they hire several taxicabs to pick up guests—Mr. Zhang today and Mr. Li tomorrow. They invite everyone from appraisal committee members, experts, and professors to ordinary inspectors. "All are included and no one is missed." By currying favor with everyone, they are cited as "good enterprises in the province" or "good enterprises under the ministry" or "good enterprises in the country." Isn't this an advantage?

This is not only the case of enterprises, but is also true of villages and towns. With dining and wining, they gain advantages, become good-performance units, and even are classified as "poverty-stricken units." A cadre of a poverty-stricken county once said: "We know that extravagant dining and wining is no good. But we want to develop our economy. We need work assignments with preset targets and appropriations of funds. Concerned authorities have only limited money. If we do not entertain them, others will, eventually we will be at a disadvantage. The name 'poverty-stricken county' did not come easily; we got this name by feting the people concerned." "With this name, all other questions, such as targets and projects, are easy to resolve."

Then, a second theory has come into being.

B. "I don't like dining and wining, but it is unavoidable."

This is a state of mind of some hosts and guests. Also, it is used as an excuse for entertainment. In some people's opinion, if the visitor is their immediate superior, a "god of wealth," or a representative from "the unit with which they have special relations," then they have to show goodwill to the visitor and entertain him even though they are reluctant to do so. Otherwise, they may suffer

losses, not to mention getting extra advantages. Certainly, they don't like feting at public expense, but cannot do without it.

We cannot say that this is entirely an excuse for using public funds for entertainment. I have a friend who is the secretary of a county party committee. He feels troubled and vexed because he is time and again invited to attend banquets to help entertain visitors. If the county leaders do not show up at the banquets to welcome the visitors from high-level departments, it appears that the county is not "up to the standard" and is not paying due attention to the visitors. So, when visitors come from various "sectors," the "counterpart units" in the county always invite the leaders to attend the banquets they hold in honor of the visitors. Sometimes, my friend receives several or even over a dozen invitations at the same time. Even if he had a magic power, he could not satisfy all the requirements. Plus this leader cannot drink very much. He feels greatly embarrassed when people have created an atmosphere of "drinking the cup dry to show deep friendship." At that time, he can neither withdraw nor hold a lot of liquor. To him, attending banquets to help entertain guests has become an indescribable suffering and a grave trouble.

On my work tours to the grassroots, I have heard on several occasions that many people have the same state of mind and share the same feeling with this secretary. Certainly, attending banquets is a burden on them. Not long ago, a Chinese official made an observation trip to Germany. In this rich country with an average per-capita income of over 10,000 marks, the reception held for the distinguished guest was simple and economical: a drink, a cup of soup, a salad, three pieces of fried potato, a fried pork steak, and fruit-flavored butter ice cream for desert. After finishing his share, this official said with deep feeling: "If all banquets in China were like this, we would have much less burden."

However, the question is: Though everyone feels that entertainment is a burden and a trouble, few can reject it flatly. To do so requires a macro environment and a social atmosphere. But if everyone is "waiting" for the appearance of such environment and atmosphere without going into action, can the environment and atmosphere appear by themselves?

C. "Theory that dining and wining is no crime."

No one dares to pocket public money. However, people dare to eat with public money, thinking that as long as they do not take bribes, dining and wining is no big deal. This "theory" has encouraged indiscriminate banqueting.

The law expressly stipulates that anyone who embezzles 1,000 yuan or more shall be sentenced to a fixed imprisonment of not more than three years, and anyone who has given or received a bribe of 1,000 yuan or more shall be prosecuted. Putting public money into one's pockets is a crime, but there are many justifications to use the same public money in buying food and drink to fill one's

stomach. In this regard, even specific law-enforcing and supervisory departments find it hard to clearly distinguish between what is a crime and what is not.

D. "No one rejects eating without paying."

In the final analysis, the primary reason for the increasing seriousness of dining and wining is that "you can eat without payment"—in other words, "you eat at public expense."

In a certain area, the following doggerel is well-known: "Invitations comes from everywhere. If you don't accept the invitations, you will miss the banquets for nothing. If you go and eat, you owe nothing. Who can reject eating without paying?" These few lines give a penetrating analysis of the matter and are, indeed, thought-provoking.

It is because of "eating at public expense" without the need to take money from his own pocket that the host is so generous and hospitable in entertaining the guest—a pleasant job that he is never tired of.

It is because of "eating at public expense" that the guest is completely at ease in accepting the invitation. There is no need for modesty, nor should he feel indebted to the host. On the contrary, he thinks that it is right to accept the invitation because if he did not go to the banquet, he would miss the food for nothing. "Dining and wining at public expense" has stirred up the enthusiasm of both the "host" and the "guest." [passage omitted]

### 3. The Difficult Road of Banning "Dining and Wining at Public Expense"

[passage omitted] A. The might of the "gold-plate edict" and the "arrow-shaped token of authority"

In traditional mentality, most Chinese regard the emperor's "gold-plate edict" and the general's "arrow-shaped token of authority" as sacred, thinking that whatever order they issued should be carried out. After the founding of the PRC, the "red-label documents" of the Communist Party have an incontrovertible authority. Orders and prohibitions are strictly enforced in general. Only on the question of dining and wining, the prohibitive effect has waned like a strong force hitting against a rubber wall.

In 1982, efforts were made from the top down to promote the practice of feting officials with "four dishes and one soup." Yet those at the lower level worked out measures to counter the policy established at the higher level. The "four dishes and one soup" were transformed into four big plates (each plate contained three to five different kinds of expensive foods) or replaced by four courses with each course made up by four dishes. Big bowls and big plates were the vogue. [passage omitted]

In 1986, a central leading organ advocated food reform. Accordingly, China imported 83 fast-food production lines, and began to popularize fast foods in some cities. The project was soon called off, however.

In 1987, the State Council strictly admonished officials that they must firmly oppose extravagant dining and wining. "The records of distinguished people and famous families and the history of our country all prove that diligence and frugality lead to success while luxury invites destruction." But this advice produced very little effect.

In July 1988, the State Council issued a circular aimed at controlling and reducing meeting expenses and strenuously checking the unhealthy practice of "dining and wining in connection with meetings."

In September 1988, the General Office of the State Council issued a circular stipulating that at in-house receptions no white wine, imported liquors, and pop-top-can drinks should be used with the meals. No public funds should be used in buying wine for entertainment, and no maotai should be used in entertaining foreign guests.

In July 1989, a decision was adopted to limit the production of pop-top-can drinks. However, the trend of dining and wining did not diminish, and public funds spent on pop-top-can drinks were terrible. Shortly afterward, 50 pop-top-can production lines were imported. These production lines, plus imports, supply 150,000 canned drinks every year to markets nationwide. A sample survey of urban restaurants reveals that 70 percent of the sales of pop-top-can drinks are paid by public funds. This consumption alone spends 800 million yuan of public funds each year.

According to incomplete statistics, the State Council and concerned departments issued nine circulars and statutes from July 1988 to July 1989 to check dining and wining at public expenses. From 1960 to the present, the pertinent government departments have issued as many as 121 "red-label documents" on controlling institutional consumption, including dining and wining at public expense.

Confronted with the surging tides of dining and wining at public expense, however, the dike built by the "red-label documents" has again and again lost its effect. [passage omitted]

### B. The loneliness of "anti-dining warriors"

Now, in China's cities and countryside, government departments and enterprises, most people, including "officials" and "ordinary people," have ample reasons to criticize "dining and wining at public expense." At the grassroots level, this practice is also bitterly hated by the masses. We may say that it has become a target of universal criticism. However, what is disappointing is that people are only morally and emotionally wrathful and critical, but are cowards in action. The media have time and again published news reports with such striking boldfaced headlines as "A Model Worker Accuses the Minister of Lavish Dining and Wining" and "A Reporter Tells the Inside Story of a Journalist Group" as a way to encourage the public to report improper cases of dining

and wining. Nonetheless, people only feel angry about such cases, but stay a distance from the dinning-table issue for fear of getting into trouble. Even in the "craze for making telephone reports on irregularities" which once appeared in the entire country, very few reports dealt with dining and wining at public expense according to the records of the departments concerned.

This, of course, is attributable to the Chinese people's traditional mindset that unless there are many "participants," they do not think it worthwhile to do anything nor are they emboldened to take any action. Meanwhile, there is a reality that we must face squarely: According to a follow-up survey by the personnel concerned, almost all of the few "anti-dining warriors" across the country have met with the same fate—contempt and indifference.

A cadre named Li was engaged by an eatery of a county guest house. He was neither bold enough to openly oppose entertaining officials, nor had the guts to report improper cases of entertainment to the authorities concerned. Once he complained quietly to a reporter about the burden of entertainment. He was immediately dismissed by the chief of the guest house on the excuse of "reducing superfluous personnel." Li went here and there to appeal, but all he got was a cold shoulder. Shortly afterward, he found a job in another unit. When he reported to duty, the unit leader said: "You are the one who accused the county head of dining and wining. Sorry, I too am afraid of people who like to inform against others." Dumbstruck, Li turned around and wept, feeling he was helpless and isolated. [passage omitted]

A fact I have often noticed is that people are indignant against dining and wining at public expense when the problem is taken up "as a whole." However, they are indifferent when this problem occurs by their side. Also, time and again, they hope for the appearance of "anti-dining warriors." But, when the warriors eventually appear, they often express strong disappointment and make irresponsible remarks. [passage omitted]

#### C. "Cadre fish"—officials' psychological starvation

We have to point out that officials at all levels are a leading factor and a main force in bringing about and checking the practice of "dining and wining at public expense." Some people describe this practice as a "three-official phenomenon," namely "officials eat, eat at official expense, and officials want to eat."

**State cadres-officials:** This is a Chinese concept with an extremely obscure borderline and a very complicated meaning. Here, officials mean "state cadres" in the broad sense.

**State cadres:** This was once a proud and admirable stratum with an enviable social status and a highly stable economic income. That is, they always had a "guaranteed harvest regardless of drought or excessive rain." [passage omitted]

However, when unfair distribution has become a phenomenon in the entire society, a social psychological imbalance is bound to appear, and the reorientation of social values is inevitable. [passage omitted]

A survey of state cadres' income carried out in 1989 by Beijing Municipality turned out an embarrassing fact. Cadre income was not only incomparable with rich individual households, but also remarkably lower than the staff members and workers of enterprises and institutions. Of the 16 different trades surveyed, mining, construction, and catering workers had an average monthly income of 217 yuan; those working in transportation, commercial, banking, cultural, public health, sports, postal, telecommunications, and scientific research departments got 176 yuan monthly on average; and state cadres and primary school teachers earned an average of 133 yuan per month. A sample survey of 1,000 office cadres carried out by Shanghai Municipality revealed that their average per-capita income was 10 percentage points below the staff members and workers of state-owned enterprises. The State Statistical Bureau's report published in July 1989 showed once again that the income of staff members and workers went up at a higher rate than that of cadres.

In the face of this economic "basis" and under the impact of the commodity economic tide, the pride, self-esteem, and sense of responsibility of state cadres have weakened. A widespread concern is that the waves of economic distribution will push the "officials" to the beach of poverty. There is an ever-growing feeling of disappointment and "psychological starvation" on the part of cadres.

"Cadre fish" have appeared in the south.

This is a low-grade fish, cheap and not delicate. Rich men do not bother to taste it. Buyers coming to the stalls that sell this kind of fish are mostly poor office cadres. Hence, innovative businessmen have given the fish a special name—"cadre fish."

There is a "humor" prevailing in special economic zones and coastal areas. To urge the children to study hard, the parents often say: "If you don't study hard, you can only be a cadre when you grow up!" Perhaps, this is no less alerting than the words used in the north: "If you don't study hard, you will become a street cleaner when you grow up." This is a Chinese-style "black humor."

An irregular phenomenon of distribution has come into being. On the one hand, state cadres cannot get what they deserve. The two wage adjustments for state cadres since 1985 have only triggered cross-the-country wage raises accompanied by price hikes. The implementation of the public service system is full of difficulty. On the other hand, it is very easy for cadres to get what they should not have. Examples are such disguised "intangible income" as "dining and wining at public expense" and "granting requests in exchange for money." The

price for this is the waning and even the loss of the conscience and the sense of responsibility of public servants. [passage omitted]

#### D. Creation of a low-level culture

When we focus our examination on the prevailing practice of dining and wining, we will see that there are very complicated reasons why "dining and wining at public expense" has become a persistent problem. Apart from the political, economic, and other social reasons as stated above, I think there is another reason—the concept of "the great culture." Here "the great culture" should not be construed to mean merely "diploma" and "educational background."

—Poverty and vanity have produced a "beggar-type show-off." "Eating is the most important thing to the people." Certainly, in China, many things begin with "eating." When neighbors, friends, and colleagues meet and exchange a few words, they ask, "Have you eaten?" Moreover, everything begins and ends with "eating" regardless of the occasion, time, or place or whether it is official or private, important or trifling. "Eating is a matter of first-rate importance." This is the motto in a country not completely free from poverty. Satisfying the "first-rate" need is, therefore, of utmost significance.

We have been poor. Even today, we cannot say we are "rich" or have become comparatively "well off"—that is still an intermediate target we have to work for. But the time has gone when "the poorer we were, the more revolutionary we became." People have begun longing for and bragging about affluence. In the countryside, people try to live frugally to save money so that they may own a house with a tiled roof or a small building. In cities, individual upstarts show off their wealth by wearing five or six big golden or diamond rings. Of all show-off methods, however, the most effective is "dining and wining." Those hosting banquets can display their wealth and influence, and the guests can show off their social status and positions. By eating together and exchanging toasts, both can satisfy their requirements.

—Spiritual life is poor. Now our social development has entered the stage of modern civilization. With the progress of civilization, those without high ideals and lacking spiritual ballast have also come into the new era, but their spiritual life remains at a low level. Sociologists hold that man's interest, love, and action mirror his cultural quality and reflect his cultural level. The lofty interest of human life comes from noble human quality, which, in turn, comes from fine cultural and moral cultivation. Taking pleasure in "lavish dining and wining," wallowing in the enchantment of drinking, and indulging in boasting, flattering, and ranting at the dinning table are way out of line with the spirit of our times. [passage omitted]

#### Why Children Run Away From Home

92CM0350A Shanghai SHEHUI [SOCIETY]  
in Chinese No 88, 20 May 92 pp 2-4

[Article by Si Yansu (0674 0917 5126): "We Cannot Ignore Run-Away Children"]

[Excerpts] At present, child vagrant cases are on the rise. According to agencies concerned, 246 child vagrants were caught at long-distance bus stations, railway stations, and passenger piers during 1991 in Shanghai. A district police station also revealed statistics which showed that the district received and handled 112 cases concerning child vagrants during 1991. Child vagrant cases introduce unstable elements, and damage and harm society and the families of the run-away children. [passage omitted]

The causes of child vagrants are multiple and complex. We have investigated and analyzed 270 cases, and found several major reasons for their running away from home.

First, there is indeed social influence on these children, however a more important factor is their cultural quality and self-cultivation. Investigations by Shanghai and other provinces and cities indicate of these children, 70 percent had a third grade to eighth grade education; two children were high school students, accounting for 0.7 percent; 118 were junior high school students, accounting for 44 percent; and the rest were elementary school graduates, accounting for 55 percent. To some extent, educational level determines one's moral quality. Of the 270 child vagrants, one was a member of the Communist Youth League; 30 were young pioneers, accounting for 11 percent; the rest were not only average kids in terms of political behavior, 12 were disciplined or punished in school, and two have received penalties from the police, one received a warning, and the other a fine.

During a forum with 10 child vagrants, the author asked: "Why didn't you go to school, but chose to run away from home?" Five kids responded flatly: "Money is the creator of everything. We want to play electronic games, skate, and sing Karoke. Although we get a monthly allowance from our parents, it is not enough. We have to leave home. We may possibly earn some money." Two children said: "We are from a well-to-do family, but we are not doing well in school. Teachers and classmates look down on us. We feel ashamed and become vagrants." Three children answered: "We are influenced by T.V. programs, movies, books and journals, thinking that the world outside school must be fantastic. We feel that it is mechanical to repeat the 'two points plus one line' life of schooling, and attracted by the 'outside world', we seek 'the happy world.'"

To identify the inner causes of child vagrants, we sent a questionnaire to 30 vagrant children. We asked: "Why did you leave home?"; 12 responded, "for money," accounting for 40 percent; six persons said: "To leave behind a name for ourselves as marshal arts heroes for

100 generations," accounting for 20 percent; 11 children said: "Tired of parents' lectures," accounting for 37 percent; and one person responded: "I borrowed 30 yuan to play electronic games. I ran away because I couldn't repay it."

We can see from the above that child vagrants leave their families simply because of the influence and corrosion of unhealthy ideas. They are not interested in education, and "studying is useless" and "money is all-powerful" tosses around in their contradictory mood and ideas. They wander about merely for play, wealth and the dreamy mentality of becoming martial arts heroes. Such internal elements are the major causes of their behavior.

Second, children are heavily influenced by their families and the social environment. According to information provided by concerned agencies, 80 percent are from families with two or more children; 56 percent come from divorced, remarried, separated, or families with emotional problems; and 39.1 percent have parents who had been convicted or sent to correction camps. An investigation of 270 vagrants reveals that 50 had parents who were detained for crimes, accounting for 18.5 percent; 114 were from divorced and other broken families, accounting for 42 percent; 17 had parents engaged in small individual households, accounting for 6 percent; and the rest were mostly under the guardianship of grandparents because their parents are often away from home on business errands. Of the 270 kids, 10 had

parents who were Communist party members or government employees, accounting for 4 percent; 240 had parents who were workers, accounting for 89 percent, and 20 had parents who worked in hospitals and school units, accounting for 7 percent. We also investigated the educational background of 20 vagrants, and found that only one attended a key school, accounting for 5 percent; two were from schools which had relatively good administration; and the rest were in schools where security was loose, school social environment was unsatisfactory, and faculty's focus was on teaching, with little attention to moral education. [passage omitted]

### Education Inspection Offices in 92 Percent of Cities

OW3107035992 Beijing XINHUA in English  
0125 GMT 31 Jul 92

[Text] Shenyang, July 31 (XINHUA)—About 92 percent of cities and 73 percent of counties in China had set up education inspection offices employing 11,836 inspectors by the end of last year.

This was announced at the national seminar on the assessment of education inspection which finished here yesterday.

Experts say that inspection service is expected to ensure the implementation of the country's guiding education principles, policies, and regulations.

They also say the education inspection system in the country is yet to be fully developed.

### QIUSHI on Strengthening Armed Police Force

HK2006064592 Beijing QIUSHI in Chinese  
No 8, 16 Apr 92 pp 43-45

[Article by Xu Shouzeng (1776 1108 1073): "Energetically Encourage Truth Seeking and Realistic Approach"]

[Text] Comrade Jiang Zemin recently emphatically pointed out that the general principles and policies of the party and state for accelerating reform, the opening of the country to the outside world, and economic construction have been laid down, and the key now lies in their implementation. Cadres at all levels must refrain from indulging in idle talk and should do more concrete work and guard against formalism and bureaucratism. The Central Military Commission has promulgated a number of laws and regulations on Army building in recent years. In the light of its own actual conditions, the People's Armed Police Department has also drawn up rules and regulations that are suited to its own characteristics. We can say that the major blueprint for strengthening the armed police force has been drawn up. A good foundation has been laid. To continuously push forward the building of the police force, a lot of work needs to be done. However, the crucial task lies in further improving its work style and vigorously grasping the implementation of work in all fields.

Some of our party members are not down-to-earth and conscientious in their work and are keen on surface formality. For example, no sooner do they start a job than they are busily going about summing up their experience and reporting their achievements. Some of them overlook the need to lay foundations and engage in short-term activities in their anxiety for quick success. Some of them overlook the importance of all-around construction. They only pay attention to strong items and strive to excel in one task only. Some of them are only too willing to give their best if they know they have something to gain. If they have nothing to gain, they do not show much enthusiasm. There are also some people who practice formalism and go through the motions. These not only affect the general mood of the armed forces but bring harm unto themselves. Comrade Yang Shangkun once emphatically pointed out: "It will be very dangerous if leadership work is based on surface formality." "Only by working conscientiously will the army's work have any hope."

To be truly realistic in our approach to work, we must first embrace a dialectical materialist world outlook and methodology. This requires us to step up our study of Marxism-Mao Zedong Thought, to master the use of these ideological weapons, overcome metaphysics in understanding, and put right our guiding ideology in work. At present, the overwhelming majority of comrades have the spirit of striving to be first and to excel. In actual fact, hoping to receive affirmation from above for achievements made is a sign of initiative and a desire for personal advancement which is above reproach. However, if the guiding ideology on the part of the leaders is

incorrect, this spirit of not wanting to lag behind will, either wittingly or unwittingly, be turned into "a claim to fame."

To correct the guiding ideology for work, it is necessary to have an honest and scientific attitude toward work. Strengthening the armed police force and increasing its fighting capacity is a gradual process. Likewise, improving the quality of the police force cannot be done in a single move. Only by adhering to the inherent laws of the development of the armed police force, following an overall plan, implementing the measures step by step, and putting one thing in order after another while aiming at overall improvements can the overall requirements put forward by Comrade Jiang Zemin, namely, to "reach the required political level, be able to pass the toughest military tests, have a fine work style, abide by strict discipline, and provide effective support," be satisfied. Thus, in providing guidance in work, it is necessary to properly handle the relations between immediate work and long-term development, with the emphasis on long-term development; properly handle the relations between grasping improvement with laying a solid foundation, with the emphasis on foundation laying; and properly handle the relations between concentration on a single item and overall development, with the emphasis on overall development. Only in this way can we properly coordinate work in all fields and continuously raise the overall level of the armed police force.

We cannot change work style by empty talk, and neither can this be treated as any ordinary task. We must really make a determined effort. Practice makes the nation strong, while empty talk will bring harm to the nation. This applies to the running of the country, and the same holds true for strengthening the armed police force. The strengthening of the armed police owes its present excellent situation to the arduous struggle and hard work put in by past and present leaders at various levels. The task of building the armed police force is particularly heavy and arduous this year. In particular, the deepening of education on upholding the party's absolute leadership and maintaining firm faith in socialism, the improvement of the quality of grass-roots units and personnel training, and the strengthening of regular management and regular ideological work are important tasks that affect the overall strengthening of the armed police force and are very difficult to grasp. In order to make breakthroughs in these respects and bring about the smooth development of the entire armed police force, there are no shortcuts. Efforts must be made to improve conscientiously the style of leadership and devote ourselves to practice heart and soul. It is necessary to go down and make one's stay worthwhile. At present, it has become common practice for leaders and cadres at various levels to go down to grass-roots units to conduct investigations and study. The phenomenon where no one goes down has changed, which is a good thing. However, how leaders and cadres are going to unfold work and serve grass-roots units after going down still needs further study and resolution. To make one's stay worthwhile, it

is necessary to make an earnest effort to help grass-roots units solve their problems and produce real results and quality. It is necessary to find the law governing the strengthening of grass-roots police units in order to effectively guide grass-roots cadres in building companies [zhong dui 0022 7130] and improve their quality and fighting capacity in an all-around way in accordance with the "Outline for Strengthening the Army at the Grass-Roots Level." The main task at the company level, that is, the general unit level, is to conduct investigations and study, sum up experience, and put forward policy suggestions for the purpose of providing guidance. The task at the regiment [zhi dui 2388 7130] level is mainly to give concrete help and grasp implementation. In selecting which grass-roots units to go to, it is necessary to choose those that are representative. They must include good, mediocre, and poor units. In particular, it is necessary to make more fact-finding visits to scattered grass-roots units in remote border areas where conditions are harsh. During their stay at grass-roots units, young and physically able comrades must practice "five together" and identify themselves with the fighters.

Strive to be meticulous and realistic. "Careful and precise work produces art treasures." This is as true of art as of work. In work, it is necessary to have a rigorous and meticulous work style. Some comrades are overly simplistic and crude in work. The fact that they merely go through the motions has affected the effectiveness of policy implementation. For instance, regular ideological work and regular management work are both specific and meticulous. They are concerned with minute details, where every person, vehicle, gun and bullet counts and no negligence is tolerated. Unless in-depth and meticulous work is carried out, problems that could have been avoided will occur and accidents and crimes which should not have taken place will take place. Facts have proved that in order to grasp implementation, it is necessary to carry out meticulous work and seek truth through meticulous work.

By "meticulous," what we mean is that we should give concrete embodiment to the directives and guidelines of the higher authorities. We cannot simply copy everything by "doing exactly what is being done at the higher levels." On the basis of having a thorough grasp of the situation at the higher levels and an accurate grasp of the situation at the lower levels, we should develop our own ideas and tactics and creatively grasp implementation. By "meticulous," what we mean is that we should properly coordinate different tasks on the basis of their internal links and should not treat all tasks in the same way by "pulling eyebrows and whiskers all at once." The various aspects of the work to strengthen the armed police force are interrelated. In the process of implementation, it is sometimes very difficult to draw a hard and fast line between different tasks. Only by being good at coordination can we get twice the result with half the effort. However, this coordination involves more than simple and mechanical mediation. It requires us to make a clear distinction between what is urgent and what is

not, between the primary and the secondary. What needs to be stressed should be stressed, what needs thoroughness should be given thoroughness, and what needs to be merged should be merged. In short, we should always stress the main points in all our work, ensure harmony and order, make different aspects of work promote one another, and implement policies in an all-around way. By "meticulous," what we mean is that we must make a concrete analysis of concrete conditions, carry out separate management, and give separate guidance; we cannot "rush headlong into mass action" or seek "uniformity." Conditions differ from unit to unit. When we observe and handle problems, we cannot take an overly simplistic approach and see only superficial phenomena. We should see the essence through their appearance. When grasping implementation, we should deal with each case on its merits, differentiate between conditions, and get things done unit by unit, task by task, and problem by problem. In the case of major tasks in particular, it is necessary to divide work into stages and grasp implementation in a planned and systematic way. If necessary, we should give the task "a back thrust" and "turn our head around" several times.

Fear no hardship or difficulties. The process of grasping implementation is one of overcoming difficulties, resolving contradictions, and doing hard work. Without the courage to meet difficulties head-on, it is impossible to grasp implementation. Why is it that some units stationed in places where conditions are poor and life is tough, and which do not stand out at ordinary times, can if need be give outstanding performance in work? Some units can sometimes make a great show on the strength of the advantages they enjoy, but upon closer scrutiny one finds heaps of problems. The reason is that the former have a clear-cut guiding ideology, the spirit to go all out in grasping real work, and have done their work where it really matters. People who go in for formalism and put on a show take the easy way out in trying to strengthen the armed police force. They engage in short-term activities. Of course this will create latent contradictions and problems. Thus, we cannot do solid work without the spirit of defying difficulties. We must maintain the spirit of starting an enterprise through arduous efforts and being industrious in work, overcome ideas of seeking ease and comfort and inclinations to be lazy and sluggish, and strive to think arduously and work hard. We must take the initiative to go to units which are the most remote and where hardship is the greatest to help dispel their worries and solve their problems. We must have the courage to help units which lag behind in work make a breakthrough.

Solve the present problem of "four excesses." At present, there are excessive administrative meetings, telegraphic dispatches of a general nature, work teams that "fly all over the place," and assessment and competition activities which add to the burdens of grass-roots units and affect the implementation of policies. To solve this problem, the important thing is that party committees must strengthen overall planning and organs must do a

good job of coordination. Party committees at all levels must strengthen centralized and unified leadership, properly manage and make good use of organs, and effectively guard the "passes" of major work arrangements and higher-level activities. Different departments in the government must look at the whole concept and resolve to streamline meetings. Units at all levels must make unified plans for meetings to be called, control the overall number, reduce the scale, compress the time, and improve the quality of meetings. Meetings that are not absolutely necessary should be resolutely canceled, and if other means can be taken to work out solutions there is no need to specially call meetings to look into problems. We must effectively improve work style at meetings by advocating shorter meetings and shorter speeches and cutting down on the amount of paperwork. Vocational departments should not as a rule issue telegraphic dispatches to lower levels in their own name. Organs at all levels must conscientiously sort out and cut down on unnecessary journals and bulletins. Documents and telegraphs must be clear and concise, and lies, empty talk, and polite remarks must be avoided. Efforts must be made to rationally organize work groups. Organs at all levels must make unified arrangements for the dispatch of work groups, put the stress on joint work groups, work groups assigned to stay at selected units, and work groups assigned to grass-roots units in remote border areas where conditions are tough. Work groups going down to work in grass-roots units must have fixed tasks, fixed routes, fixed locations, and fixed timetables. They

cannot move around as they please and upset the normal order of the armed police force.

It is necessary to scientifically organize and carry out inspection and assessment. Party committees at all levels must strictly guard passes and incorporate individual items of assessment into a comprehensive assessment plan in accordance with the regulations of the "Outline for Strengthening the Army at the Grass-Roots Level." Activities striving to reach the target for grass-roots units should only be comprehensively inspected and assessed once or twice a year. Efforts must be made to eliminate overlapping assessments in order to reduce the burden on grass-roots units.

In order to energetically encourage a truth-seeking and realistic approach, the important thing is that leaders must take the lead. The presence of formalism has a lot to do with the style of leadership. If those above have a habit of doing something, those below are bound to follow suit. If leaders can take the initiative to improve their leadership style and correct their ideological line, their subordinates will definitely follow their example. In this way, work style will be corrected at its source. Thus, leaders at all levels and comrades in various organs must fully realize the impact of their words and deeds on their subordinates, persist in setting a good example, guard against formalism, develop in all units the fine work style of taking pride in being realistic in their approach to work and taking policy implementation as their responsibility, and continue to push forward the task of strengthening the armed police force.

### Skillful Yangko Dancers Among KMT Decision-Makers

92CM0368A Taipei HSIN HSIN WEN  
[THE JOURNALIST] in Chinese  
No 276, 27 Jun 92 pp 40-41

[Article by Chi Yan-ling: "Top KMT (Kuomintang) Officials Are All Good Yangko Dancers"]

[Excerpt] [passage omitted] Ma Ying-chiu: The issue of political entity cannot possibly be the specialty of a urologist, can it?

Kao K'ung-lien: The seven scientists from the mainland all received briefings before coming to Taiwan, and the main purpose of the briefings was to facilitate political propaganda to be carried out in Taiwan.

The door between the two sides of the strait which had been closed for over four decades was opened by the KMT on its own initiative. The KMT should have known even before it opened that door: The mainland and Taiwan are different, people look the same but think differently, they speak the same language but often mean different things by the same words, similar stimuli does not get the same responses, and the mainland is not a copy of Taiwan which is not a copy of the mainland, either. All these are facts that have been lively and emphatically demonstrated since the beginning of contacts between the two sides of the strait.

Did the KMT not know that the CPC grows and thrives on propaganda work? Did the KMT not know that on the mainland people at different levels coordinate their responses on many issues? Did the KMT not know that mainlanders would come to Taiwan to carry out some secondary tasks, and demonstrate both a superiority complex and an inferiority complex? If the KMT says that it did not know, then that can only show its immaturity and naivety; if it says that it knew but would still burst into bouts of abusive language as soon as the guests were out of the door, such a conduct can only be described with the word "silly."

If one opens the door to guests, then one should not fear that the guests might play some dirty tricks while in the house. It is certainly not right for the guests to be impolite, but it is even worse for the host to be impolite. If this point is not understood, it would be much better for the KMT to close the door and shun the guests to avoid becoming mad every time the guests come, and increase hostility after each meeting. Would it be much better to have no contact for the rest of one's life so that one does not have to hear those unpleasant things!

Even worse was that the KMT official in charge of the mainland policy would, while not using exactly the four-letter word, use such abusive language as "the issue of political entity cannot possibly be the specialty of a urologist, can it?" Ma Ying-chiu has always been known

to be gentle and polite and good at choosing the right words. Surprisingly, this time even he used "abusive language."

According to Ma Ying-chiu's logic, if a urologist does not understand the issue of political entity, then an agro-economist would certainly not understand the issue, either. Even less would one with a military background understand the issue, and an education specialist had better sit on the sideline with his mouth shut. If such a logic is correct, then isn't it such people as Li Teng-hui, Hao Po-tsun and Huang K'un-hui who would also be hit by Ma Ying-chiu's bullet?

Technocrats excel at using verbal violence, often killing people in an imperceptible way. However, when a technocrat hits a wrong target, or even hits innocent third parties such as his bosses who hold nothing against him, that technocrat would be in big trouble and find it difficult to defend himself.

Sung Ch'u-yu: "Where have the members gone? Who participated in the voting? Who has gone abroad? What was so important that they had to go abroad to manage? Summon them back immediately! Otherwise, let those who would stay abroad take part in the election for overseas Chinese parliamentarians!" "The so-called constituency work is just empty talk and used as an excuse for not attending the meetings."

Recently, Sung Ch'u-yu often burst into bouts of abusive language. This is not news. During last years' elections, because the Central Election Commission instituted a nine-second rule on KMT's television propaganda, Sung Ch'u-yu burst into a rage at a meeting: "Don't we have somebody in the Election Commission?" "If there is somebody there, how could such a measure be allowed to pass?" "If that person was present then, was he not a fool?" "Who was that fool?" In fact, how could Sung Ch'u-yu not know who the KMT member of the Central Election Commission was. He purposefully used such a round-about way to humiliate that person. It may have been unprecedented in the history of the KMT that the far-from-insignificant chairman of the Organization Commission was denounced by the Secretary-General with such abusive language before the public.

When party workers who get their pay checks from Sung Ch'u-yu were abused, they perhaps could only accept such abuse in silence. However, it is rather odd that those parliamentarians who do not get their pay checks from him and enjoy greater popular bases have also been abused by the party's Secretary-General who lectured them in the manner of a father talking to his sons.

The Legislative Yuan is not the KMT's "legislative commission," and Sung Ch'u-yu is but the chief of staff of a party. Above him, there is the party chairman Li Teng-hui who is the real boss. When comrades disobey instructions, it may be alright for the party chairman to lecture the comrades in his status as the party chairman; but how can the chief of staff speak as if he were more of a boss than the real boss, and abuse people day in and day out?

Pitifully, abused legislators all accept the abuse in silence, and none of them dare to clash with Sung

Ch'u-yu who holds the nominating power. Because of the need for votes, those highly placed parliamentarians have all become such pitiful creatures suffering from osteomalacia. It is really a joke in KMT history and in the history of democracies that there are such pitiful parliamentarians, and that there is such an arrogant chief of staff of a party.

Chien You-hsin: Ch'en Shui-pien asked him whether the budget for the General Postal Service still contained a part for the General Garrison expenses. First Chien said "no." Ch'en Shui-pien then put on the table evidences showing budgeted expenses of over 50 million dollars. Then Chien changed his answer to the following: "Those are for commissioning the General Garrison to conduct security checks on parcels." Ch'en then demanded that the General Garrison withdraw from the work of examining mails. Chien gave an ambiguous answer: "It is necessary to conduct a study of that issue."

Ma Chen-fang: Ch'en Shui-pien showed that the General Telecommunications Bureau used over 60 million dollars to commission the General Garrison to conduct electronic signal monitoring, and demanded that the General Garrison withdraw from the work of monitoring telecommunications. Ma Chen-fang's answer was that "manpower and equipments are not adequate," and that "solutions may be found no earlier than 1994."

It has been five years since martial law was lifted, and the KMT promise made back then about the General Garrison withdrawing from nonmilitary affairs has proven to be a lie. Postal offices around the country still retain personnel on the payroll of the General Garrison. They have their separate quarters and examine parcels as well as selected letters. Most of those people are not security experts specializing in explosives, but are only civilian employees. People at the General Garrison know such a situation, as do people at the postal offices. Only the Transportation Minister, the ultimate boss of the postal service, does not know. It would be better if he had admitted that he did not know, but instead he chose to tell a lie, saying that "there is no such a thing," and that "they only conduct security checks on parcels." Chien You-hsin can be said to be a best example of someone who uses a 100 lies to explain away the first lie.

Since the minister behaves in such a manner, the politically-appointed deputy minister also follows suit. Security checks on parcels have to be conducted by no one but the General Garrison, and the monitoring of telecommunications has to be conducted by no one but the General Garrison. It is as if there would be no security without the General Garrison, and as if there would be parcel bombs and suspicious electronic signals every day in Taiwan, without the General Garrison. Why have such things—which should have already been done—yet to be done so many years after the lifting of the martial law? Should not the police have been able to do what the General Garrison could do? If the police could not, could not have they been trained to do those things? How can

five years be not enough for training a postal or telecommunications security person? Why do we have to wait until 1994 for solutions? Even a child would dismiss such quibbling. The fact that a high-ranking government official would even dare to mouth such rubbish in the hall of the parliament can only demonstrate his total lack of one of the four virtues of propriety, justice, honesty and honor.

Huang Ta-chou: Hao Po-tsun demanded that "every month there be a zero-car accidents, and zero-death day." Thus, Huang Ta-chou instructed the municipal governments each "to create a model street which is not a fire hazard, and to go all out to achieve the objective of having one zero-car accidents, and zero-death month."

The boss criticizes: "There is not a single street" without vehicle accidents. Therefore, the subordinates are trying hurriedly to produce "a street" without vehicle accidents. To create "one day" or "one street" as a model so as to answer the call of the boss is the practice of Huang Ta-chou who says all the time that "the Executive Yuan president's instructions are like parents' admonitions for children."

Hao Po-tsun says: "No street in Taipei satisfies the requirements of the law." Therefore, Huang Ta-chou selected East Chunghsiao Street for daily mopping-up operations, so as to turn that street into Taipei's only street that fully satisfies legal requirements. It is not the concern at all here whether it truly satisfies the requirements of the law or not; the objective is to make it, at least, appear to be satisfying the requirements.

Whatever instructions the higher-ups issue will be carried out by subordinates. The higher-ups are talking about partial reform; therefore, the subordinates would absolutely not talk about comprehensive reform. One command leads to exactly one move of the exact magnitude as desired; thus the move would be just what the higher-ups want. Where can one find such obedient subordinates? Perhaps one can only find their counterparts among robots of the so-called intelligent kind!

**Editorial on Recent Mainland Investment Upsurge**  
*92CE0577A Taipei CHING-CHI JIH-PAO in Chinese*  
20 Jun 92 p 2

[Editorial: "The Recent Mainland Investment Upsurge"]

[Text] After 1988, large numbers of Taiwanese businessmen swarmed into Kwangtung and Hsiamen to invest in factories. It touched off an upsurge in mainland investment. Now, with the investment upsurge of the past year or two just beginning to die down, it looks like we are on the verge of another upswing, with an economic boom on the mainland, aggressive economic reform and opening up in Shanghai's Pudong district, Deng Xiaoping's trip to the south to sound the trumpet for acceleration of reform and opening up, and the revelation by high-ranking Chinese Communists that

domestic markets will be further opened up to Taiwanese firms. However, there is apparently a fundamental difference between this upswing and the last one, so the two will play themselves out in very different ways.

The previous upsurge of mainland investment by enterprises had several notable characteristics. First, it was not a matter of manufacturing firms actively and of their own volition taking the initiative; rather, it happened because business conditions had changed drastically in a few short years. The conditions upon which firms had relied to survive and remain competitive had disappeared or taken a turn for the worse, and these firms were not able in a short period of time to make a gradual transition to other competitive strengths. As a result, they were run out of their base of operations and had to search for another place to extend their moribund operations. Since their equipment and production technology was no longer useful in Taiwan and was almost worthless here, they took their money making methods and sought a second life in the mainland. They were practically doing business empty-handed. The percentage of failures was naturally very low, since there was little to lose in the first place.

Second, it is not completely accurate to say they went to the mainland to invest, because they took their own equipment, technology, raw and semi-finished materials, and even markets with them when they set up factories in Kwangtung and coastal areas. The only mainland resources they really used were its cheap land and labor. They did not actually have much contact with the surrounding industries or environment; their production and marketing activities were totally isolated from the mainland economy. Thus, these firms neither depended on the goods or markets of the mainland industrial structure, nor did they directly encroach upon the survival base of mainland economic entities. Their development was basically harmless, but it did bring jobs and foreign exchange.

On the contrary, the majority of investors in the current upswing are no longer a bunch of desperate medium- and small-sized enterprises seeking to extend their lives in the mainland; they are financially powerful medium- and large-sized enterprises that play a decisive role in our domestic economy. Theirs have been positive decisions to invest in the mainland, not acts of desperation. They depend not on the outdated and nearly worthless equipment of the previous round of investors; they have the real McCoy, up-to-date stuff. Unlike the previous small- and medium-sized enterprises, which took their orders and markets with them to the mainland and mainly engaged in export processing, these latest investors who are moving excitedly into the mainland have fixed their self-proclaimed razor sharp sights upon China's enormous domestic market of 1.1 billion people. Thus, their focus is upon articles of daily consumption, which would mostly be sold inside China, and the service sector, the most backward and fragile sector of China's economy. They would no longer be isolated from the main part of

the mainland economy, but would aggressively infiltrate the mainland economic structure and become a part of it.

"If everyone in China just spent one dollar, it would be 1.1 billion dollars." That was what lured many naive investors in Europe and the United States into a race to be the first investors in the mainland more than 10 years ago when the mainland first embarked on reform and opening up. It was not long, though, until the winners of the race limped back home in bad shape. There were not so many dollar bills to squeezed out of those 1.1 billion pairs of hands. The Chinese Communists simply do not have that much foreign exchange for average people to throw around. Due to the lack of foreign exchange, this market is just a mirage. Although the Chinese Communists have today accumulated more than 40 billion dollars in foreign exchange, they also have an astronomical foreign debt; dare they loosen their grip and allow this foreign exchange to be consumed on the products of Taiwanese businessmen? Besides, one never knows how long the processing and export sectors of the Pearl River delta, the goose laying the golden eggs which enable them to accumulate so much foreign exchange, will continue to flourish. Once this sparkly gate begins to gradually close, what will they rely on to earn foreign exchange and pay off the heavy foreign debt? This set of circumstances may make the 1.1 billion-strong market more enticing and seemingly real than ever before, yet it continues to be a mirage.

More importantly, just as was formerly the case in Taiwan, the mainland's domestic market is basically the sole reserve of medium- and large-sized enterprises. To say nothing of foreign businessmen, even the mainland's own small- and medium-sized enterprises find it difficult to enjoy a slice of the pie. In the past few years, every time individual entrepreneurs or other privately run enterprises (which disguise their true nature by calling themselves collective) get just a little too successful, a chorus of criticism arises to keep them in their places. Their only recourse is to pull in their horns. Under such circumstances, is it conceivable that Taiwan's medium- and large-sized enterprises would be allowed to barge in with huge financial resources and advanced technology to expand and infiltrate at will in mainland domestic markets, posing a direct threat to the survival of the mainland's fragile medium- and large-sized state enterprises? As pointed out in yesterday's editorial, the mainland's medium- and large-sized state enterprises are an important mainstay of the Chinese Communist regime; once the survival of these enterprises is threatened, the Chinese Communist regime will waver. No matter how ignorant and absurd the Chinese Communists may be, they could not possibly allow something like that to occur.

Finally, the previous wave of small- and medium-sized investors were basically doing business empty-handed, so there were profits to be made even when the books showed a loss, but the current investors are taking to the battlefield with real guns and swords. If business is not as

good as expected, they could lose their shirts. They cannot take the experience of previous investors as a guidepost. Furthermore, the previous wave of investors had the wind at their backs, as their activities coincided with a period of economic recovery, but the mainland has now clearly entered into a period of overheating, and the economy is poised to take a tumble. The current investors will not have the same luck as the last group. Several government agencies are now being ridiculed as busybodies for their attempts to lower enthusiasm for investing in the mainland. The facts may yet prove such efforts to have been their wisest course of action.

**Guidelines on Enterprises' Mainland Investment**  
*92CE0577B Taipei CHING-CHI JIH-PAO in Chinese*  
*19 Jun 92 p 1*

[Article by Weng Teh-Yuen (5040 1795 0337) and Bai Fu-Mei (4101 1381 5019): "Four Guidelines for Medium- and Large-Sized Enterprises Investing in the Mainland"]

[Text] The Executive Yuan's Mainland Affairs Council [MAC] and Ministry of Economic Affairs have decided to formulate a set of concrete measures to deal with indirect investment in the mainland by medium- and large-sized enterprises, and set forth guidelines based on four principles: a beneficial base for the survival of Taiwan's enterprises; relative benefit; division of labor between industry on both sides of the Taiwan Strait; and balanced investment.

The first of these principles refers to industries extending their survival on the mainland. Relative benefit refers to reducing costs for manufacturers, which can be achieved by setting up factories on the mainland. Industry on both sides of the strait must carry out a vertical division of labor. Balanced investment means that manufacturers will not be allowed to invest in the mainland unless they continue to invest in Taiwan.

MAC Vice-Chairman Ma Ying-Chiu stated yesterday (18 July) that large-sized enterprises that do not have a great impact on Taiwan's economy should be allowed to invest in the mainland.

He said that because high technology industries impinge upon the Sino-U. S. agreement on the control of high technology exports, investments in this area will be discussed again during the September mainland work conference after the matter has been studied by the Ministry of Economy's Industry Bureau.

Ma Ying-Chiu participated yesterday in an informal discussion at the Ministry of Economic Affairs on "Stimulating Interest in Domestic Investment, and Exploring the Economic and Trade Relationship Across the

Strait." After the meeting he spoke with reporters and said: "By allowing investment in the mainland by large-sized enterprises, we hope to see a vertical division of labor."

Minster of Economic Affairs Hsiao Wan-Ch'ang once stated that within a planned, organized, and orderly context, medium- and large-sized enterprises can be allowed to invest in the mainland, but we must keep products and markets separate, and division of labor must be vertical.

Ma Ying-Chiu said that in reality, some large-sized enterprises such as Cheng Hsin, President, and Wei-chuan have already invested in the mainland, and that when the MAC passes a rule next week allowing firms in the service industry to invest in the mainland, there will be large-sized enterprises presenting applications.

He said that when medium- and large-sized enterprises invest in the mainland, it does not necessarily involve capital or technology intensive operations. For example, food processing and service operation, "medium- and large-sized enterprises should be allowed to invest in the mainland as long as they do not pull away large parts of their industries with them, and as long as their mainland investments have no major effect upon Taiwan's economic development."

Ch'en Ming-pang, executive secretary of the Ministry of Economic Affairs' Investment Review Council, has stated that because business costs in the mainland are low, indirect investment in the mainland by Taiwanese firms are not necessarily large. When the government gives close scrutiny to investments in the mainland by medium- and large-sized Taiwanese enterprises, it is most concerned to know whether the investment will have a large impact upon Taiwanese industry and its economic development, and whether the recipients of such investments will become fierce competitors with Taiwan in international markets. If these main problems can be avoided, the attitude of the Ministry of Economic Affairs will tend to be supportive even when Taiwanese firms are involved in medium- and large-sized investments, and the ministry will look favorably upon accelerated development of the mainland's domestic markets.

As for high technology industries, both Hsiao Wan-ch'ang and Ma Ying-chiu feel that the first consideration is the Sino-U. S. agreement on the control of high technology exports. Taiwan intends to set up a science park on an experimental basis that eventually will cover all areas. To obtain various high technology from the United States, Taiwan must observe the agreement to control exports of high technology to communist countries.

### Development of Party Politics in Prospect

92CM0354A Hong Kong CHING PAO [THE MIRROR] in Chinese No 179, 5 Jun 92 pp 12-13

[Article by Chen Yu-xiang (7109 3022 4382): "Who Will Rule Hong Kong? A Discussion of the Future Development of Party Politics"]

[Excerpt] [passage omitted] The results of the 1991 direct elections for the Legislative Council [Legco] were that the "Hong Kong United Democratic Alliance (United Democrats)" led by Martin Lee and Szeto Wah, and their allies in one fell swoop won the overwhelming majority of the 18 directly elected seats, and candidates who flaunted their closeness to Beijing did not win a single seat. This result led the different political forces to immediately reappraise this situation, and impelled a number of the major political organizations to speed up formulation of new political strategies to be better able to deal with the second direct elections to be held in 1995.

Since the United Democrats emerged from the first Legco direct elections as the winner of the most seats, in the Legco they have played the role of opposition party. Under this circumstance, straight away a group of supporters of the organizational system were compelled to hurriedly organize, and they established the "Cooperative Resources Center," which has been engaged in an intense tug-of-war with the United Democrats in the Legco.

The other "no party no group" members floating between the United Democrats and the Cooperative Resources Center, originally attempted to band together, strengthen connections, and exchange opinions to give full play in the legislature to their function as a balance and mediator, but they were dubbed by the Hong Kong media as the "breakfast group" association, after convening breakfast meetings on a number of occasions, and then announced they were breaking off activities.

The birth of a pro-Beijing political party with Legco member Tam Yao-zong [6223 5069 1350] and Peiqiao Middle School Head Tsang Yu-cheng [2582 6877 2052] as convenor was announced. This new political party, the so-called Democratic Alliance for the Betterment of Hong Kong (HK Democratic Alliance), is described by the media as having powerful backing, because the pro-Beijing candidates, after they were all tarred following the 1991 Legco direct elections, and the Chinese drew a lesson from this bitter experience, and immediately rallied their forces, hinting that they wanted Hong Kong's pro-Beijing figures to unite, and form a party with a clear-cut stand, which could be well prepared for the second direction elections in 1995. People in political circles estimate that the Chinese will throw considerable manpower and material resources at this political party, and actively wield it in the next election.

Looking at the United Democrats and their allies, over the past half year on many occasions they have displayed in the Legco their role as opposition party, and the

results of a recent public opinion poll show that the level of their acceptance appears to be going down. Yet in another public opinion survey, the acceptance level of their party leader Martin Lee was quite high, and in the eyes of citizens, the democratically elected members generally still get higher marks than the standing members. But in the debate over this year's finance and budget proposal, the display of the members of the United Democrats was generally to give the impression that they only understood politics and did not understand economics. In reality, the appointment as economic policy spokesman by the United Democrats of medical training school figure Huang Chen-hsia [7806 7201 6667] is sufficiently reflective of the United Democrats' extreme lack in the legislature of professionally trained figures in finance and economics to be appointed to this important position, and it is understandable that critics believe that the United Democrats only have a political program and lack a clearly defined economic program. This is not a favorable factor in a Hong Kong society where economics rules.

Because an important ally of the United Democrats, the "Meeting Point," recently announced it would become a political party, this will undoubtedly significantly weaken the power of the United Democrats. It was not long ago that the Meeting Point dispatched a delegation to Shanghai for observation and study, and they were entertained by the former deputy head of the Hong Kong Branch of the New China News Agency, Li Chuwen [2621 0328 2429]. In addition, the Meeting Point in the past has had good relations with Beijing, and their expressions on public affairs have been more unbiased, hence it may be predicted that in the future the United Democrats will lose the powerful support of the Meeting Point, and along with the "Hong Kong Democratic Alliance for the Betterment of People's Livelihoods," with which it split before the 1991 Legco elections, it may be foreseen that the so-called "Democratic Groups" in the future will be split into three forces, and the United Democrats, with the exception of some members of the Meeting Point such as Yang Sen [2799 2773] who will continue to support them, will have the forces of the original members of the "Taiping Mountain Study Group" as its main support, figures such as Huang Chen-hsia, Wen Shi-chang [2429 0013 2490], He Run-chong [0149 0193 1504], Wu Ren-wen [0702 0088 2429], Wei Chia-hsiang [7279 1367 4382], etc., and figures such as Liu Chien-shi [0491 0578 4258] of the "Christian Industry Committee."

It is estimated that from now on, on major issues, the United Democrats and their allies will still form a united front, but in these normal times a different facade and public expression on issues will emerge for each political organization, as they struggle to orient themselves and search for a political way forward before the 1997 elections.

As for the organizational system groups of the Cooperative Resource Center, since one of their members, appointed Legco member Pan Kuo-lian [3382 0948

1670] recently stated that the Center in the next several years will move to become a political party, and prepare for the struggle to become the ruling party, his public expression obtained the approval of the Center's leadership, and the personal approval of Legco and Exco member Allen Lee Peng-fei, hence, that the Center must become a political party is an incontrovertible fact.

Taking a broad look at each of the organizations representing the interests and opinions of industrial and commercial circle figures, it is only at the present time that the Center finally has the conditions for becoming a political party. The original desire was to have an effective "Freedom and Democracy Alliance," but after its organization, it did not give people a feeling that it was very worthwhile, though among its founders was former Exco and Legco member Maria Tam Wai-chu, who after biding her time, recently again is a latent force waiting to emerge, but with only her power, if the Freedom and Democracy Alliance wanted to revive itself, this would by no means be easy.

The new and recently established Alliance for the Betterment of Hong Kong may be viewed as the most serious threat to the United Democrats on the future political stage, and there are those who foresee that the

1995 Legco will consist of three factions: a pro-Beijing faction (the Alliance for the Betterment of Hong Kong), an opposition group (the United Democrats), and a faction from the organizational structure (the Center). If the Alliance for the Betterment of Hong Kong is to be able to stress its building Hong Kong program, in the next several years engaging in some concrete and feasible activities, it will prove that it has the resolution to build a democratic Hong Kong, then it may be predicted that the "build Hong Kong faction," or the "democratically build Hong Kong faction," will be viewed as an emerging talent, and it will win the support of the vast majority of Hong Kong voters, balancing the two extreme poles on the Hong Kong political stage, the United Democrats and the Center.

However, if the HK Alliance for the Betterment of Hong Kong is incapable of shedding the image of accepting Chinese control, and on major questions if it is not able to take a position that is in the interests of the people of Hong Kong, and only bangs the drum for Beijing, then in the end it will only be a "tail party" wagging for the Chinese, and will be a disappointment to the people of Hong Kong. Hence, in the 1995 Legco elections, I am afraid that there will still be no way for pro-Beijing candidates to break out. [passage omitted]

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